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Q2 2023 Sun Life Financial Inc Earnings Call

EVENT DATE/TIME: AUGUST 09, 2023 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, and welcome to the Sun Life Financial Q2 2023 Conference Call. My name is Michelle, and I'll be your conference operator today. (Operator Instructions) The host of this call is David Garg, Senior Vice President, Capital Management and Investor Relations. Please go ahead, Mr. Garg.

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 second quarter of 2023. 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, 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 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 noted in the slides, forward-looking statements may be rendered inaccurate by subsequent events. With that, I will turn things over to Kevin.

Kevin Strain Sun Life - President, CEO & Director

Thanks, David, and good morning to everyone on the call. Turning to Slide 4. We delivered good performance during the second quarter. Our results demonstrate the continued resilience of our diversified business mix, the value we are realizing from our recent acquisitions and strategic partnerships, our ability to execute on our strategy and the positive impact we continue to deliver for our clients.

We achieved strong underlying earnings for the quarter of \$920 million, representing 14% growth over the prior year. The earnings growth was driven by strong results in our Group Health & Protection businesses and our Individual Protection businesses, alongside a resilient Wealth & asset management performance. Sun Life Canada achieved record earnings this quarter, driven by strong investment results and favorable insurance experience.

Sun Life U.S. also had a strong second quarter for results, reflecting balanced contributions across the business. Notably, DentaQuest recorded the largest Medicare Advantage sale in its history, bringing sales for the U.S. Dental business to approximately \$580 million since closing our acquisition in June 2022. Sales in the second quarter are expected to add approximately 700,000 Medicare and Medicaid members over the next year, supporting our commitment to improve preventative care and oral health outcomes for our clients.

We made good progress in Sun Life Asia, with individual sales up 51% year-over-year. Most notably, Hong Kong insurance sales grew nearly 4x over last year, partially driven by pent-up demand with the reopening of the border with Mainland China. This includes contributions from new quality agency teams and the newly opened Sun Gateway Prestige Client center.

The fundamentals of our Asset Management businesses remained strong. MFS long-term retail fund performance was strong with 98% and 92% of fund assets ranked in the top half of their respective Morningstar categories based on 10- and 5-year performance. While SLC fee-related earnings increased 19%, driven by higher AUM, reflecting strong capital raising and deployment across the platform and the AAM acquisition.

Assets under management are now \$1.37 trillion and are up 9% over last year, supported by increases from both MFS and SLC. Underlying ROE for the quarter of 17.7% continues to trend towards our medium-term financial objective of 18% plus, reflecting our disciplined capital management and sustained emphasis on capital-light businesses. We also ended the quarter with a strong capital position with a LICAT ratio of 148%.

Given our strong capital position and capital generation, we announced our intention to launch a normal course issuer bid to purchase up to 2.9% of our outstanding common shares or 17 million shares, subject to regulatory approval. We will continue to maintain flexibility for other potential capital deployment opportunities.

Turning to Slide 5. This quarter, we delivered on several key business initiatives that drove our Client Impact Strategy. Helping clients achieve the health care and coverage they need remains a top priority, and we are leveraging our digital capabilities and recent acquisitions and strategic partnerships to make this happen. In Canada, we continue to make progress in building a health ecosystem with holistic solutions and services for our clients.

Last month, we announced an agreement to acquire Dialogue Health Technologies, Canada's leading integrated health and wellness virtual care platform that provides clients with access to affordable, on-demand, quality care. We've been in partnership with Dialogue since 2020 and see the incredible growth potential, but more importantly, this acquisition will allow us to play a larger role in Canada's health ecosystem and help Canadians navigate and receive care.

Sun Life Canada also launched Lumino Health Pharmacy, provided by Pillway, an online pharmacy app that helps clients access knowledgeable pharmacists by chat or phone and have medications delivered right to their door. This service helps clients monitor their medications, usage and refills, allowing them to easily access and manage care from the comfort of their home.

In our U.S. Dental business, we expanded Advantage Dental+ by opening two new dental care practices in Texas. We opened these offices in areas where access to quality oral health care is a challenge for children with Medicaid coverage. In Asia, we continue to leverage our digital capabilities and product innovation to help clients live healthier lives. In Hong Kong, we introduced eSunPro, a new digital health care platform that offers one-stop comprehensive care.

Clients have access to advanced treatment and support from the point of diagnosis to post treatment, all in support of helping our clients focus on recovery and safeguard their health. We're using our distribution capability to build lifetime financial security for our clients. Last quarter, we announced an exclusive bancassurance partnership with Dah Sing Bank in Hong Kong. We're pleased with the early sales momentum and progress in July, demonstrating early traction from our new partnership and our commitment to leveraging quality distribution to meet the protection, savings and investment needs of our clients.

In SLC, Advisors Asset Management, our U.S. retail distribution affiliate, which we acquired last quarter, announced that we'll distribute

BGO IREIT, a non-traded real estate investment trust launched by BGO, supporting the needs of high-net-worth individuals. We're also embracing our responsibility to create a more sustainable, brighter future.

In line with our commitment to sustainable investing, this quarter, we announced our second sustainability bond issuing \$500 million. We intend to invest an amount equal to the net proceeds of this offering into green and/or social assets as defined by our sustainability bond framework.

Additionally, SLC Management continues to invest in assets that generate a stable and attractive yield with a positive environmental impact. For example, InfraRed recently announced an investment in JOLT, an e-mobility company. InfraRed's investment in JOLT's rapid electric vehicle charging infrastructure supports a low carbon future and contributes to its target of achieving 50% of AUM invested in climate solutions by 2025.

Finally, we continue to maintain our position as an empowered and inclusive workplace. This quarter, Sun Life was recognized as one of Corporate Knights Best 50 Corporate Citizens in Canada for the 18th time since 2002, driven in part by strong scores on executive gender diversity and board racial diversity.

In closing, we're encouraged to see our business continue to grow as we emerge from the pandemic. We're seeing accelerated growth in Asia, mortality experience being less impacted by COVID and morbidity experience improving. We continue to monitor the macroeconomic environment closely with interest rates remaining high, particularly at the short end of the curve.

But inflation is showing some signs of moderating, the credit environment remains fairly stable and equity market performance overall was good in the quarter. Real estate has been a headwind for us and for the industry recently, but we continue to benefit on a relative basis from a rebalanced portfolio, reflecting actions taken over the past 5 years.

Asset management and wealth flows remain challenging, but we continue to outperform our competitors. We continue to generate capital to support our organic growth, a healthy shareholder dividend, the ability to execute on the right acquisitions or strategic partnerships like Dialogue and Dah Sing Bank, while also supporting the buyback we announced this quarter.

Overall, we continue to deliver a positive impact for our clients, whether it's making health care more accessible, creating strong investment performance or providing protection, put simply, helping our clients achieve lifetime financial security and live healthier lives.

With that, I will turn the call over to Manjit, who will walk us through the second quarter financial results.

Manjit Singh *Sun Life - Executive VP & CFO*

Thank you Kevin. Underlying net income of \$920 million and underlying earnings per share of \$1.57 were up 14%. Our strong market positions and attractive business mix across Wealth and Asset Management, Group Health & Protection and Individual Protection helped to generate an underlying ROE of 17.7%.

Wealth and Asset Management, which includes contributions from MFS, SLC Management, Group Retirement Services, Individual Wealth and Asset Management businesses in Asia and Canada generated 40% of underlying earnings. Wealth and Asset Management underlying earnings were in line with the prior year. Lower fee-based income reflecting the impact of declining global equity markets was largely offset by higher investment income driven by volume growth and higher yields.

Group Health & Protection, which comprised 35% of our Q2 underlying earnings, continued to deliver strong earnings growth. This includes our Canadian group health business as well as our U.S. Stop-Loss, employee benefits and dental businesses. Underlying earnings were up \$122 million, driven by good premium growth, favorable insurance experience as well as a full quarter contribution from DentaQuest.

Group sales maintained good momentum more than doubling from the prior year. Individual Protection represented 25% of our Q2 earnings and includes our longer-term protection businesses in Canada and Asia as well as our runoff businesses in the U.S.

Individual Protection underlying earnings were up 23% year-over-year. This was driven by improved insurance experience in Canada and the U.S. as well as good sales momentum over the past year in Asia. Total Individual Protection sales were up 45% from the prior year.

We also generated new business CSM of \$270 million during the second quarter, up 43% year-over-year. Earnings on surplus assets increased across our businesses, reflecting higher net interest income and higher realized investment gains. Reported net income for the quarter was \$660 million, down 29% from the prior year.

Reported earnings for the quarter included market-related impacts, acquisition-related costs and amortization of acquired intangibles. Market impacts were primarily driven by unfavorable interest rate experience, reflecting a nonparallel shift of the yield curve. Given our current positioning as the yield curve normalizes, we expect to see favorable interest related market impacts in reported net income.

Real estate returns were relatively flat in the quarter versus our long-term expectations of approximately 2%. We continue to view real estate as a key component of our diversified portfolio. Over the last 10 years, our North American real estate portfolio has generated annualized total returns of over 9%, above our long-term expectations.

Our balance sheet and capital position remains very strong. SLF LICAT of 148% was in line with the prior quarter. The leverage ratio of 23% remains low. HoldCo cash of \$2 billion increased by \$1 billion from the last quarter, in line with our prior guidance.

And we continue to expect capital generation of 25% to 30% of underlying earnings over the medium term. This is after payment of common share dividends and organic investments. Our strong capital position provides Sun Life with the ability to execute on attractive opportunities as well as the resilience to absorb potential impacts from more volatile market conditions.

These are valuable attributes in this environment. Now let's turn to our business group performance, starting on Slide 9 with MFS. MFS underlying net income of USD 187 million was down 5% from the prior year. This was driven by lower average net assets as well as a higher tax rate.

Reported net income of USD 187 million was down 18% year-over-year, driven by an increase in the fair value of share-based compensation. Pre-tax net operating margin of 37% was up 1 point from the prior year. AUM of USD 589 billion was up 3% from Q1, the third consecutive quarter of sequential growth.

Retail net outflows of USD 1.7 billion and institutional net outflows of USD 2.3 billion, both moderated from the prior quarter. Turning to Slide 10. SLC Management generated fee-related earnings of \$62 million, up 19% year-over-year. This reflects good capital raising as well as deployment of capital into fee-earning AUM over the past year. Underlying net income of \$44 million was down modestly from the prior year as higher fee-related earnings and seed income was offset by favorable nonrecurring items in the prior year.

Reported net loss at SLC management was \$3 million, primarily driven by mark-to-market losses on real estate held in the surplus account and acquisition-related costs. Capital raising of \$2.1 billion was resilient in a challenging environment. Total AUM of \$218 billion was up 13% year-over-year. This includes \$21 billion that is not yet earning fees.

Once invested, these assets are expected to generate annualized fee revenue of more than \$180 million. Turning to Slide 11. Canada delivered record underlying net income of \$372 million, driven by strong disability experience and higher investment income. Reported net income of \$210 million was down year-over-year due to market-related impacts.

Wealth and Asset Management underlying earnings were in line with the prior year as higher investment income was offset by higher expenses. Group Health & Protection underlying earnings increased \$48 million year-over-year, driven by improved disability experience from lower claim volumes and shorter claims durations.

Individual protection was up \$25 million, driven by improved insurance experience and higher investment contribution. And earnings on surplus was up from prior year, reflecting higher investment income and realized investment gains.

Turning to Slide 12. U.S. underlying net income of USD 160 million was up \$58 million from last year. Reported net income of USD 133 million was up \$20 million year-over-year. Group Health & Protection underlying earnings were driven by strong premium growth, a full quarter contribution of the DentaQuest acquisition, favorable, but moderating insurance experience and higher investment contributions. The combined after-tax profit margin for Group Benefits and Health and Risk Solutions of 10.2% was a new high watermark for the business.

We're very pleased with the contributions of DentaQuest. We are winning new business, are on track with our integration milestones and are confident that we will achieve our synergy targets. Individual Protection underlying earnings increased \$12 million year-over-year, benefiting from improved mortality experience and the inclusion of the retained portion of our U.K. business.

Slide 13 outlines Asia's results for the quarter. Underlying net income of \$150 million was up 25% year-over-year on a constant currency basis. Reported net income of \$122 million was up from last year due to lower market-related impacts. Wealth and Asset Management underlying earnings were down slightly, reflecting lower fee-based earnings.

Individual Protection earnings increased 33% year-over-year on a constant currency basis. The increase reflects higher premiums from good sales momentum during the past year as well as improved expense and lapse experience in our joint ventures.

Individual protection sales were up [51%] (corrected by company after the call), primarily driven by strong sales growth in Hong Kong, China and India. New business CSM for Asia was \$118 million, up 64% from the prior year. This was a good quarter to end the first half of the year.

We are entering the second half with positive business momentum. While the operating environment remains uncertain, our core strengths of a diversified and attractive portfolio of businesses, a strong capital position and a talented team supported by a great culture will serve us well as we focus on delivering on our purpose for our clients and driving future growth. With that, I'll turn the call back to David for Q&A.

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

Thank you, Manjit. To help ensure that all participants have an opportunity to ask questions this morning, please limit yourselves to 1 or 2 questions and then requeue with any additional questions. I will now let the operator poll participants.

QUESTIONS AND ANSWERS

Operator

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

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

I wanted to ask about the big increase in underlying experience gains, very positive, both sequentially and year-over-year. And if I look at the limited history, it would suggest that this is sort of at the upper end of the range, a more normalized level would be lower. So really, what I want to understand is how sustainable this number is? Is it reasonable for it to head lower?

And if I think about earnings from a run rate perspective, were there any offsets this quarter that you would highlight on the opposite side to consider as well, not just focus on the very strong experience?

Kevin Strain Sun Life - President, CEO & Director

Meny, we're going to let Jacques start because a lot of the experience comes from the Group Benefits businesses. And then Dan to follow up on the experience in the U.S.

Jacques Goulet Sun Life - President of Sun Life Canada

Thank you, Kevin, and Meny, thank you for your question. Indeed, very good experience and morbidity in particular, on the group side. Just as a quick reminder, I would say, important to focus on 3 main items when we talk about morbidity experience. First is the claims volume, the durations and also the pricing actions, which as you might remember, we started taking in 2019. So the claims volume was indeed lower than our expectations and the durations were shorter.

So one of the things to keep in mind is we don't typically fully control the claims volume. But I would point out that there is some seasonality in Q2 usually a little bit lower among the 4 quarters. On the duration side, we've put in place, Meny, a number of items or solutions to help both plan sponsors and plan members.

As an example, we provide a mental health coach to plan members in Canada. And what we've noticed is that durations are shorter for people who use the mental health coach. And sometimes, they don't even go on disability to start with. So in terms of how sustainable is it all. I mean, I did a little bit of an exercise looking at the last 5 years and what the experience is on volumes and durations. And we're not that far from what the 5-year experience is like.

So I would expect that we're able to continue that. That being said, it's tough to predict. The main item I would leave you with is, is what I said earlier, the key driver for us to moderate this is the pricing actions we've taken. It's something we continue to remain very vigilant and stay very close to. And when needed, we make short-term adjustments. So as I said, we're probably not going to repeat 24% every single quarter from here on. But we feel pretty good on how we're managing claims overall in morbidity. And I would suggest that we feel very confident about our MTOs of course. Dan?

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

Thanks, Jacques, and good morning, Meny. This is Dan Fishbein. First of all, I would say that experience gains, especially in businesses like Disability, Stop-Loss and Dental, are often an indicator of good business results. Better pricing than expected, better claims management, and we've invested in our businesses to improve our capabilities, and we're certainly starting to see the results of that.

As far as specifically in the quarter, the story of the quarter is this is a more normalized result. Really, the first quarter since the pandemic began that we've seen what we would consider more normalized results. Mortality was on expectations for the first time. And then morbidity, as you noted, was quite strong.

In our Stop-Loss business, I'm sure you've noted that the prior quarter and the fourth quarter of last year had exceptional results. As an example, we had a 63% loss ratio in the first quarter. We priced to 72.5. So we've seen some moderation as you would expect in that result in the second quarter. And in fact, the second quarter was still favorable, but more close to our pricing targets. So a more sustainable level.

In the group business, we had one of the best results that we've ever had in the second quarter. And we've said throughout the pandemic that the group business had undergone great improvements, it was just hard to see it through the mortality experience of COVID. And now we're seeing that emerge really quite clearly. So a very strong quarter in Disability, especially in the group business and then a strong quarter in Dental as well. Now there's some seasonality in the Dental results.

The first quarter is a high utilization quarter. People using their benefits. Second quarter is a more moderate quarter. So you see some higher results in Dental. But overall, I would characterize this as a more normalized result, and you certainly could interpret that as more indicative of future patterns.

Manjit Singh Sun Life - Executive VP & CFO

And Meny, maybe I'll chime in on your last part of your question around other items that you should think about relative to these results. So I'd note a couple of things. So obviously, as Jacques and Dan mentioned, their businesses have done a lot of work to generate the favorable experience that you're seeing, and that's generating good results. So that's also factoring into our compensation accruals. So that shows up in our expense line.

The other part of that would be that given the strong results we're seeing in Canada and the U.S. this year, which are higher tax jurisdictions, that's resulting in a higher tax rate, you'll note that in the quarter this year for this quarter. And the third thing just to remember about this quarter is that we've also had the sale of the U.K. business this quarter. And so that's showing up on different elements of the DOE this quarter.

Kevin Strain Sun Life - President, CEO & Director

And Meny, I was just going to outline one last thing. If you look at this experience, again, it's primarily coming from the group businesses in Canada and the U.S. In Canada, we're a market leader and have scale and great digital capabilities, and I think Jacques talked about how to think about that. And in the U.S., we're a top 4 player if you look across our businesses and Dan, all of his businesses now with the addition of DentaQuest we saw having scale and performing well.

So again, we have great digital capabilities in the U.S. and added things like PinnacleCare on top. So it's really driven by the work that Jacques and Dan are doing to drive the business.

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

That's good detail. That's it for me.

Operator

Our next question comes from Gabriel Dechaine of National Bank.

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

Just on the CRE negative experience this quarter. It's a pretty big number, and we've had 4 quarters in a row. And you alluded to the long-term track record of generating 9% returns and all that. I'm just wondering if you can give us a sense of what kind of marks have you applied so far over the past several quarters? And how conservative are they? And what the -- is it at all possible to give an outlook for what kind of investment experience we could see from the CRE book in coming quarters?

Randy Brown Sun Life - CIO

Gabriel, it's Randy Brown. Thank you for the question. So the negative you're seeing, as you indicated, the difference between the long-term expected return and the actual economic return. So we saw value in aggregate on the portfolio down about 1% on the quarter, but the total return essentially was flat because it incorporates income into the total return.

So we do have a large and diversified real estate portfolio and different parts would move in different ways. So as you would expect, we did see price declines in office, but we did see industrial up, again, really driven by rental growth increase and multi-temp retail were essentially flat. If you look at from peak U.S. office, we've marked down about 24% and Canadian office is down about 16% as those 2 markets have different dynamics, as you would expect.

If you think about the second part was really the outlook. I guess I'd start there by saying we like commercial real estate a lot long term for our portfolio and continue to believe that it's an integral part of a large diversified investment portfolio like ours. We've invested in the asset class for decades and really use it to back long-dated liabilities.

As I mentioned on prior calls and mentioned in the opening here, we have actively repositioned our real estate portfolio over the last 5 years to prepare for a market downturn and have delivered returns well above our long-term expectations over the last decade.

All that being said, like all asset classes, bonds, stocks and others, prices go up and prices go down. Right now, we're on the downward part of that cycle. It is hard to predict future return, but we do expect a little bit more weakness in office as the impact of COVID and varying return to office policies play out.

So one thing to keep in mind, we are not forced sellers. We are not levered in our real estate. Our average hold periods are between 10 and 20 years for our buildings in North America. And as a cash buyer, we have the ability to weather these changes in valuations and

actually can benefit from a position of strength. So we're long-term investors. We believe in real estate. We have a well-balanced, diversified portfolio and expect it to perform well, especially when you compare us to the broader market.

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

Great. That's a fulsome response. Just wondering, were there any defaults in the mortgage book because we don't -- I believe you if there were, that would be in the net investment results.

Randy Brown Sun Life - CIO

Yes. So the answer there on CML, the portfolio has held up remarkably well. So for the 12th consecutive quarter, we have no -- so average LTV of 53%. Debt service coverage, about 1.7. No impairments. No arrears. So we have a well-diversified portfolio.

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

Okay. Great. And just shifting over to Asia. I heard the sales momentum is improving there. A couple of things. What kind of products are taking off first, I guess? And then historically, I believe Sun Life maybe less than 15% of your sales had come from Mainland Chinese. I'm wondering what your strategy is now in the immediate future? And why or why not that may have changed? Are you targeting more.

Ingrid Johnson Sun Life - President of Sun Life Asia

This is Ingrid Johnson from Asia in Hong Kong. So in terms of the product, we're seeing it similar as in the past where they're typically traditional life insurance offerings that are oriented towards retirement and legacy planning. If we then look at the actual underlying momentum, this is what we hoped for and had made preparation anticipation of the border reopening with Mainland China.

So in terms of our pre-pandemic level of sales, it was roughly around 10% to 15%, as you observed. We're now seeing this being more than double that, with still good momentum. And as Kevin mentioned, the Dah Sing bancassurance relationship agreement is also activated and we're seeing good momentum, together with the opening of our Sun Life Gateway Center in Tsim Sha Tsui. So generally, we've looked at also innovative products just to make sure that we're relevant for the society we serve. And then we're seeing momentum in the other markets, principally India and China.

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

So why that shift in Mainland Chinese product sales, the strategy has obviously changed.

Ingrid Johnson Sun Life - President of Sun Life Asia

The strategy hasn't changed. We're better positioned to be able to take advantage of that.

Kevin Strain Sun Life - President, CEO & Director

Yes. It's Kevin, Gabe. I was in Asia about pre-COVID time, and we've been building capabilities for the last 2, 3, 4 years to tap into this market as it opened. We probably lacked -- there's capabilities we wished we would've had 5 years ago that we have today, and that's helped us to gain more Mainland Chinese visitor business.

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

Great. I'll follow-up on that off-line.

Operator

Our next question comes from Doug Young with Desjardins.

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

First question is just for Dan. Obviously, with DentaQuest and the boost in sales this quarter, I mean, how are you feeling relative to your accretion expectations from that business? It seems like things are performing potentially better than expected. Is there an opportunity to get more than you had originally anticipated?

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

Well, thanks. We're feeling very good about our original projections, but there's various puts and takes, and some things a bit different than we had initially projected, as you would expect. Probably, the biggest headwind and this is well documented, is the end of the public health emergency that occurred on May 11 and the recertification by all the states of their Medicaid membership.

We had projected losing a certain amount of Medicaid membership as a result of that. But over a 2-year period, it does appear that the states are processing those recertifications more quickly than anticipated. The overall projections for membership loss are about the same so far, although a bit hard to predict as what we had projected, but there could be some short-term pressure there.

On the integration side, the integration is going very well. We actually are now projecting having more expense synergies than we had built into the model. And on the sales side, as you noted, we're really getting some extraordinary results. In the first 13 months since the acquisition closed, we've had \$580 million in new sales. The vast majority of that, although not all of it is government programs. And we've essentially had no lapses on the government program side.

And just to put it into perspective, that \$580 million in new sales is more than 20% of the revenue that was in place as of the date of the close. So we think any issues related to PHE would likely be made up with the very good sales results.

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

I appreciate the color. And then maybe just sticking with you, Dan. I mean the U.S. Group Benefits margin, it's just below 10% this quarter. It's down from the last few quarters, but your target is 7%. It seems like we're migrating down towards that 7%. Is that the trajectory that we should be anticipating, given the normalization potentially in Stop-Loss as you renew next year? Like how do we think about that U.S. Group Benefits margin relative to the target over the next year to 2 years?

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

Yes. Well, the Group Benefits margin that we report is -- does not include Dental, right? It historically has -- it doesn't include the DentaQuest government programs. So it's really a Stop-Loss and group margin. And actually, that was 10.2% on a trailing 12 months basis, which is the highest that we've ever seen. We are considering whether or not we should recast that at some point to include all of the Dental business, some changes, minor puts and takes under IFRS 17.

So more to come on that. But I think the story this quarter is that we've seen the emergence of very strong margins in the group business, meaning Group Life, Disability and Voluntary. As I mentioned earlier, with the relaxation of COVID mortality impacts, we're now seeing the impact of all the great improvements that that team has been making to the business, and it's starting to make a significant contribution to our results, including the margin.

The Stop-Loss margin, obviously, this quarter has moderated some versus the prior quarter, we would have expected that. But in the aggregate, it drove the margin up to 10.2% with the improvements in the group business.

Operator

Our next question comes from John Aiken of Barclays.

John Aiken Barclays Bank PLC, Research Division - Head of Research for Canada

Wanted to follow on Gabriel's line of questioning, Ingrid, if I may. Two things specifically about Hong Kong. Can you talk about the bancassurance agreements and in terms of -- I know it's early days, but what products are actually being sold through the bancassurance channel? And if that's, what you want or if you want to ultimately move to a different set of products?

And secondly, the Gateway client center, you mentioned the region. I apologize I'm not familiar with that. Is this specifically for Mainland China visitors? Or do I actually have the intentions for that client center incorrect?

Ingrid Johnson Sun Life - President of Sun Life Asia

Good evening from Hong Kong. So yes, on the products, we made sure with our bancassurance agreements in the relationship that we'd have products relevant for different client segments and that they would cover the full range of what clients would need from savings, protection, legacy planning. So it's a combination of those products that we're finding are being sold. And it's through all of the branches that we are present. So we're really pleased with that.

And then from Tsim Sha Tsui actually on the Kowloon side, and it is positioned to attract the Mainland Chinese visitors and individuals that are here, but also high-net-worth clients. And we have a dedicated team of on-site financial advisers and client support representatives. So this is a very nice presence that we haven't had before.

John Aiken Barclays Bank PLC, Research Division - Head of Research for Canada

And Ingrid, the client center, is this something that your competitors also have? Or is this something innovative that is different for Sun?

Ingrid Johnson Sun Life - President of Sun Life Asia

So it's something that our competitors have had, but we've raised the bar because ours is really beautiful.

Operator

Our next question comes from Tom MacKinnon with BMO Capital.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

Just a couple of questions. First one is to start off with a line that's called other expenses. Just looking at these things just quarter-over-quarter, Asia is where you had a lot of growth. It's only up 4%. But if I look in Canada, it's up 6%, U.S. is up 20% in Canadian and U.S. dollars just quarter-over-quarter. And in the Corporate segment, it's up about 11% quarter-over-quarter.

So I think Manjit, you mentioned comp accruals, but are there any other items that are driving that number to be up so much sequentially and probably the highest it's been over the last 6 quarters, of course? And just some color there, and I have a follow-up.

Manjit Singh Sun Life - Executive VP & CFO

Sure. So maybe I'll just -- first of all, I'll start with highlighting what's in that other line. So there's really 4 main components that go into the other expense line. So the first is non-directly attributable expenses. And these are expenses that are generally related to expenses or initiatives to support the entire business group, and therefore, are not included in the insurance services, asset management or other fee income lines of the DOE.

So some examples of that would include marketing support, advertising and functional support for the business group and strategic initiatives that cut across all the business units within the business group. The second item would be sort of corporate costs that we have. And so those will be costs for groups like enterprise finance, risk, legal, strategy, et cetera. Next would be performance-related compensation that you mentioned, Tom, and the fourth would be debt cost.

So if you kind of look at the increase quarter-over-quarter, most of that increase this quarter is related to compensation-related factors. And that was really driven by the fact that we have equity-related compensation and one of the main drivers of that is Sun Life's relative share price performance versus our peer. And for the first half of the year, we were outperforming.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

And is this a true-up that happens kind of more seasonal? Or is -- are we just establishing a new trend here?

Manjit Singh Sun Life - Executive VP & CFO

Well, we look at it regularly, Tom, and when there's an amount that we think we need to true up for, we do.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

Okay. And then if I -- thanks for the additional disclosure here on capital generation, that's great. So if I put that together with your 148% LICAT that includes \$2 billion in Holdco cash. You've just launched a buyback. Sun hasn't done a buyback in a while, and I seem to recall that when they've had one, they've been active. So let's take us through your thinking with respect to the buyback. And is it just a buyback for window dressing purposes? Or do you plan on being pretty active here?

Kevin Strain Sun Life - President, CEO & Director

Tom, it's Kevin. We certainly wouldn't announce a buyback that we weren't planning to execute. So we plan to execute on the buyback over the next 12 months, subject to regulatory approval, as I mentioned in my earlier notes. So that is you'll -- as you mentioned, if you look at what we did in the past, we were active on our buybacks.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

And what about -- still sitting on a lot of capital, that's not going to probably chew through too much of it and you're generating so much. How should we be thinking about that? I mean a high-class problem to have, but thoughts there.

Kevin Strain Sun Life - President, CEO & Director

Well, you make a good comment. I mean we continue to think that we can do the buyback as we've announced and have capital to give us flexibility to add scale and capabilities through M&A when we need to and to support organic growth in our dividend. So we've sort of tried to balance all of these factors, and that's how we've determined the amount of the buyback. We are obviously looking at our pipeline, and we're -- we see everything that happens in terms of M&A in all of our businesses.

And we think we've left ourselves with enough flexibility to continue to be active if there's things that we need to do to add either scale or capability, of course, with our financial discipline. So we don't do M&A unless it's going to add to our MTOs and unless we think we can execute. So if you look at the past few years, we think we've been pretty disciplined in our deployment of capital.

Operator

Our next question comes from Mario Mendonca with TD Securities.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

Sort of along the same lines as Tom was going at. The last time Sun Life had an NCIB and actually executed on it was back in 2019. Kevin, has something changed more recently that would encourage you to have an NCIB and act on it? Is it just that Sun Life's producing capital at a better clip than it has in the past? What caused the change?

Kevin Strain Sun Life - President, CEO & Director

You remember that during COVID, you were not allowed to do a buyback program. So that was part of it. And then we were implementing IFRS 17. And as we came through IFRS 17, you can see our LICAT and capital strength numbers. And so that's got us to the place that, as we look at the pipeline and where we're at, I should also mention we did the DentaQuest acquisition during COVID as well, which was a significant user of capital.

So the combination of -- again, when we deploy capital, we step back and look at what do we need for organic growth, what do we need to support the dividend and our dividend growth and what's our M&A pipeline look like. So that's the discipline we have, and that's sort of where we stand at this point.

Mario Mendonca TD Securities Equity Research - MD & Research Analyst

And then maybe for Manjit, you referred in your opening comments to when the yield curve normalizes, as you'd expect, you see some kind of reversal of those market charges. When you say normalizing, do you mean when the yield curve steepens further? Is that what you're getting at?

Manjit Singh Sun Life - Executive VP & CFO

So maybe I'll let Kevin Morrissey comment on that.

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Sure, Mario. It's Kevin Morrissey here. Our exposure really is to the yield curve inversion. And what we saw this quarter was more inversion. So the shorter rates went up by about 50 basis points more than the longer rates. So what Manjit was referring to in his opening remarks, where if the yield curve flattens from here or normalizes to upward sloping, based on our current risk exposure, we would see those gains reflected in reported earnings.

Operator

Our next question comes from Paul Holden with CIBC.

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

So first question is regarding Advisors Asset Management. Wondering if it's starting to make a contribution to the sales for SLC? And if it hasn't yet, when should we expect the contribution to start?

Steve Peacher Sun Life - President of SLC Management

Paul, it's Steve Peacher. Thanks for the question. So there's been a lot of activity since we closed AAM and with the different affiliates getting new products launched. So most specifically, BentallGreenOak, BGO, has gone live with what they're calling IREIT, which is an industrial non-traded REIT that is through the SEC. We've still got to get through some states on the blue sky. Meetings have started. And the process from here, once you get the product live and we're working on one with Crescent that's a few months behind perpetually private BC, where we're actually already acquiring assets, then you really start working with the different platforms, the wirehouses, the RIAs, the independent broker dealers to get those products approved on their platforms.

You can't really go out and start talking actively to the financial advisers on those platforms until you get the product approved at the home office. And that -- we started that product -- we start that process before they're live, or I would say AAM does with the affiliate, but those platforms don't really engage until they've got a product that is kind of ready to go. So we are in the -- right in the thick of that now with those different platforms in the wirehouses, RIAs, IBDs that can -- that usually takes longer at the wirehouses, tends to be quicker at the RIAs.

I would -- I think that's going to take us pretty much the balance of the year. And then I think next year, we can really start to see assets moving into those funds. And the other comment I'll make is the IREIT, the BGO product, that's a seed portfolio. That's over \$1 billion. It's already bought. It's a great portfolio focused on the industrial sector. So that's ready go. And as I mentioned, with Crescent's product, we're in the market, building a portfolio now, and we're a few months behind BGO in terms of getting that product through the SEC.

So we haven't been raising money yet in those products. A few more months to go to kind of get those, the approval process is going. I think it's 2024 event in terms of money flowing.

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

That's helpful. And then my second question also related to SLC. I mean we continue to see pretty good AUM growth, and you're well on track to hit your 2025 target. But the -- I haven't really seen the same momentum in underlying net income. Can you give us a sense of when we should expect that to start inflecting higher? And maybe it's related to the first answer and have to get -- work through some of these additional expenses on getting the product approvals. But I'd like to understand that a little bit better.

Steve Peacher Sun Life - President of SLC Management

Yes. What I would point you to, Paul, I mean, is I think the best earnings measure to follow, to follow the health of the business. And you see it in the supplement, I think it's on Page 13, is we report fee-related earnings. And fee-related earnings are really a very common measure in the business for these kind of alternative businesses. And that's going to flow. And that's kind of the purest demonstration of our earnings, and that's before minority interests, before taxes.

It's also importantly before seed income and the cost of that -- the financing cost of that seed income, all of which flows through underlying net income. So I would first say, look at fee-related earnings. If you look at that this year, we're up double digits over last year, and that will track generally fee-related revenue.

On underlying net income, I think what you're going to see a little bit more volatility in that number because it includes seed income, which I think this quarter is a much more normalized number, but that's going to bounce around a little bit. It includes -- we have some share-based compensation. It's going to include that, it's going to include minority interest, it's going to include taxes. So some of those things are going to move that number around a little bit.

And I think we saw that this quarter, if you look at underlying net income from a year ago, it looks like it was flat. There were a couple onetime positive benefits to last year's number, if you normalize for that underlying net income quarter -- this quarter over last year was up probably close to 20%. So I hope that wasn't too convoluted of an answer, but I would really focus on fee-related earnings to track the earnings progress.

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

Let me ask it a different way because I think the guidance you sort of set out was based on underlying income for 2025 and you got an AUM target plus the underlying income target. And it just looks like profitability, if I simply take underlying income relative to AUM, is not tracking to those objectives. So has something changed in the profitability of the business? Or again, is it just a matter of maybe execution against strategy and getting past certain costs to improve those profit margins? I guess that's what I'm trying to understand or really?

Steve Peacher *Sun Life - President of SLC Management*

So, I would say our targets and our expectation that we're well on track to hit those targets that we set on Investor Day, we feel very good about those. And I think in terms of the expansion of the margin, as we've been growing the top line, AUMs up a lot, fee-related revenues up, fee-related earnings are up. But at the same time, we have been investing to grow this business. And generally, in this business, that means some investment in systems, but it means a lot of investment in people, salespeople, investment people.

I mean our expectations for the potential of SLC are very, very high, and we want to make sure we've got that foundation. I think you're going to start to see margins improve over the next couple of years as we can scale back some of those investments to make sure we're set up for the future and the revenue from growing AUM starts to increasingly fall to the bottom line. So I think you're going to see margin improve as we don't have to invest as much to make sure we have the foundation for future growth.

Operator

Our next question comes from Joo Ho Kim of Credit Suisse.

Joo Ho Kim *Crédit Suisse AG, Research Division - Research Analyst*

My first one is with MFS. And I'm wondering if you could comment on the net flows at MFS throughout the quarter. And whether there were any changes in the flows given that equity markets sort of gradually improved over the quarter? So wondering if you saw any improvements in flows as we move through month-to-month in that business?

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

This is Mike Roberge. The biggest driver this year in relative flows has been what's going on in the retail channel, and this is true in the industry. And so relative to last year, where redemptions were elevated given the challenges in both fixed income and equity products, we've seen redemption rates normalize. But what we've not seen yet is sales normalize.

And so industry sales are down substantially relative to a couple of years ago, and we have not seen those normalize. And where we see that money going is given where cash rates are around the world, in the U.S., 5-plus percent in cash; in Europe, less than that, is clients are sitting on cash, relatively safe cash at relatively high levels. We've seen this historically.

The market's pricing the Fed to begin to lower rates next year. If, in fact, that plays out, we think some of that cash is going to make its way back into investment products. We just got to wait for that cycle to kind of play out. But it's less around what's happening in MFS and more around what we see happening in the industry. We track -- and this is -- in the U.S., where we have data, we track our share of active assets in the U.S. relative to our flows.

And our relative net flows are running well below our share of assets, which means we are outperforming relative, particularly on the international equity and fixed income side. And so what's driving that as an industry, we think that's not going to normalize back to those levels until the Fed begins to bring policy rates down.

Joo Ho Kim *Crédit Suisse AG, Research Division - Research Analyst*

And just on other expenses this quarter again, and I apologize if I missed it, but just specifically for that variable compensation, I think accruals there. I'm curious if you could attribute that to different lines of businesses. I'm wondering if there's any major drivers of results from certain segments? And what are some -- I guess, more importantly, what are some levers that you have to sort of pull down or dial down expenses in that other expense line overall going forward?

Manjit Singh *Sun Life - Executive VP & CFO*

So Joo Ho, it's Manjit. So I would say that it's really across all the business groups. We've had very good performance across all of the businesses, as you've heard this morning. And the second factor, as I mentioned, is also related to our equity performance, which would also cut across all groups. In terms of just general approach to expenses, I would comment that we have been and are focused on disciplined expense management. That really reflects our owner's mindset philosophy that we have in the way that we run our business.

But at the same time, we're investing to support our business growth, ensuring that we are also investing to ensure that we have good business controls and capabilities and also making sure that we're attracting and retaining the best talent. So all those show up in the expense line, but they're also helping to support the business growth that you're seeing. So we feel very good about the investments we're making and the business growth that they're driving. But at the same time, we are also keeping a very close eye on expense growth.

Operator

Our next question comes from Lemar Persaud with Cormark.

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

I want to start off on CSM here. So one of the points on CSM growth year-over-year was 8% from inorganic growth, mostly from management actions. Can you break down exactly what you're referring to there?

Manjit Singh *Sun Life - Executive VP & CFO*

Kevin Morrissey are you on?

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

Yes. Lemar, I'll take that question, it's Kevin Morrissey. What we saw in inorganic is mostly related to the assumption and methodology changes, and that's where there was a change in Hong Kong where we had an adjustment to our pricing philosophy, and that resulted in an extension of the contract boundary. And as a result of that, we set up more CSM for that business. And that piece alone was about \$240 million, but it didn't have an impact on income because there was an offsetting change on the other actual liabilities. So no impact from that change on earnings, but a significant increase in the inorganic CSM movement for the quarter.

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

Okay. And then sticking with the CSM, I want to start off by saying thanks again for the segment disclosure. I found it helpful. On the new business CSM growth of \$270 million, can you talk to how much of that was driven by the strong sales growth? And how much of that was the mix changes in Asia? Sales growth part, we can see, but the mix is still a bit tougher to understand. So I'm just wondering, really, is there anything onetime in nature there that we should consider, seasonality in that \$118 million that went through in Asia? Or is that a good starting point for Asia for Q3 and Q4?

Ingrid Johnson *Sun Life - President of Sun Life Asia*

Go ahead, Manjit.

Manjit Singh *Sun Life - Executive VP & CFO*

No, you go ahead, Ingrid.

Ingrid Johnson Sun Life - President of Sun Life Asia

So I was just going to comment on Asia and then Manjit can bring to the whole of the group. So in Asia, we really have been focused on quality products where we've been looking at margin expansion, which have been the one contributor, and that's principally in the high-net-worth business. The second is on sales volumes. So you're absolutely right, that has driven the underlying momentum, and clearly, the strong growth in Hong Kong has contributed to that.

And then we also are affected by the mix. So you can reverse engineer to see a margin of roughly between 40% to 55%, just depending on the mix in the particular quarter, but we do see very strong underlying momentum. And the new business CSM growth will be reflective of the sales momentum.

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

Okay. That's helpful. And then you guys didn't call out Canada specifically, but there was some good growth in new business CSM in Canada as well. Can you provide some color on what drove that?

Jacques Goulet Sun Life - President of Sun Life Canada

Lemar, this is Jacques. I'll take that question. And yes, there's good growth in new business. It's predominantly driven by our par products, but there's also a little bit in Universal Life and in some of our individual wealth insurance products. But it's -- a lot of it is par.

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

Okay. And then just for Dan on my next question. At 10.2% profit margin, we see that number climb quite consistently over the past year. I would have thought that competition would serve to erode some of that 10% profit margin in group, but it continues to go higher. It sounds like you referred to some management actions in that profit margin. Can you talk to what -- some changes you guys made from a management action perspective in the Stop-Loss business? And, just how material is that to the margin?

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

Sure. We continue to build out capabilities in both the Stop-Loss business and the Group Benefits business. In Stop-Loss, and Kevin mentioned this earlier, we added PinnacleCare advisers, for example. PinnacleCare is a health care navigation business that really differentiates our Stop-Loss business from others because instead of just reimbursing claims, we're actually helping people in those situations that lead to stop-loss claims.

We've also continued to enhance our digital capabilities and our sales capabilities in the Stop-Loss business. So we continue to earn above market margins. But this quarter, the biggest impact was in the group business, Group Life, Disability and Voluntary. We've seen really strong growth over the past year of 13-plus percent. And that's the result of improved claims management capabilities, new industry-leading digital capabilities, particularly to help employers when they set up with us as a new account, including APIs that integrate us with a number of the leading payroll systems.

And we've also added staff and expertise to claims management to help get people back to work. So all of these things contribute to favorable experience and strong margins.

Operator

Our last question comes from Nigel D'Souza with Veritas Investment Research.

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

Just wanted to touch again on CSM balance at the segment level. When I look at the rate of CSM amortization, so the amount of CSM amortized relative to CSM balance, it looks like that rate has drifted lower, particularly for Canada and Asia. Wondering if there's anything that you would point to that's driving that? Or is that simply just a function of CSM balance growth?

Kevin Strain Sun Life - President, CEO & Director

Kevin Morrissey, do you want to take that question?

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Sure. Nigel, it's Kevin. I think when you look at the CSM amortization, the thing to keep in mind there is that, that amortization can vary quite a bit due to the product mix. And so we see quite a variability across the business groups. And so based on the changes in mix and the sales that are coming in, you might see a bit of volatility in that from quarter-to-quarter. However, we do expect to see that pretty stable in that range of about 8% to 10% that we quoted.

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

Okay. That's helpful. And the last question was more conceptual. Just trying to understand the outlook for experience gains. If that's expected to be sustainably favorable, just wondering why that wouldn't eventually show up either as the change in the actuarial assumptions and updated actuarial risks or show up in premium pricing and kind of lowering premium rates to gain market share? Just trying to understand longer term if there are favorable experience gains, why wouldn't that show from 1 of those 2 items?

Kevin Strain Sun Life - President, CEO & Director

This is Kevin Strain. I wonder -- yes, I was going to say, I wonder if you could answer that, but I do think that both Jacques and Dan gave really good answers in terms of how to think about it for the Group Benefits business. So I wouldn't want to repeat that. But maybe, Kevin, you could talk about some of how we look at experience gains.

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Sure. Nigel, it's Kevin Morrissey. I think you have the right concept there that ultimately, over time, the experience is going to get updated in either the actuarial assumptions that go into the liabilities or through the pricing when that gets renewed. So I think that is the right way to think about it. I think maybe the difference there is just the time horizon. Usually, the experience studies are done, and we do them every year, but we look over a time horizon of multiple years, and they can get updated periodically from time to time based on that experience.

So over time, I think you're right. But I think over the short to medium term, I think it's probably best to think about it in the way that it was described by both Dan and Jacques.

Kevin Strain Sun Life - President, CEO & Director

Yes. I would add to that, that the group businesses are shorter duration businesses. They are repriced on a different sort of way than individual businesses. So you have to think about group and individual differently.

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

Okay. And just a minor point of clarification. The experience gains, is that specific to Sun Life as you're managing actuarial risk better and the claims experience is more favorable because of something that's specific to you? Or is that just reflective of industry experience? Just trying to get a sense of what's driving the favorability.

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Yes. Nigel, I'll start off commenting from a high level across all the businesses, I think it's really a combination probably of a number of factors which you mentioned. One of them is the overall experience that cuts across the industry. Some of it is related to our specific risk selection and risk management. And the other dimension is the pricing as well that's been mentioned that factors into the experience gains. So I think it's really all 3 of those that have flipped in our favor.

Operator

We have no further questions at this time. And I will turn things over to Mr. Garg for closing remarks.

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 good day.

Operator

Thank you for your participation. This does conclude the program. You may now disconnect. Everyone, have a great day.

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