PARTICIPANTS

Corporate Participants

Leigh Chalmers – Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.
Dean A. Connor – President, Chief Executive Officer & Director, Sun Life Financial, Inc.
Kevin D. Strain – Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.
Kevin Morrissey – Senior Vice President & Chief Actuary, Sun Life Financial, Inc.
Michael W. Roberge – President & Chief Executive Officer-MFS Investment Management, Sun Life Financial, Inc.
Léo M. Grépin – President-Sun Life Asia, Sun Life Financial, Inc.
Jacques Goulet – President-Sun Life Financial Canada, Sun Life Financial, Inc.
Daniel Richard Fishbein – President-Sun Life Financial U.S., Sun Life Financial, Inc.
Randolph Brill Brown – Chief Investment Officer, Sun Life Financial, Inc.

Other Participants

John Charles Robert Aiken – Analyst, Barclays Capital Canada, Inc.
Steve Theriault – Analyst, Eight Capital
Doug Young – Analyst, Desjardins Securities, Inc.
Gabriel Dechaine – Analyst, National Bank Financial, Inc.
Meny Grauman – Analyst, Cormark Securities, Inc.
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Mario Mendonca – Analyst, TD Securities, Inc.
Scott Chan – Analyst, Canaccord Genuity Corp.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, my name is Deketria, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q1 2020 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

The host of the call is Leigh Chalmers, Senior Vice President, Head of Investor Relations and Capital Management. Please go ahead, Ms. Chalmers

Leigh Chalmers, Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.

Thank you, Deketria, and good morning, everyone. Welcome to Sun Life Financial's earnings conference call for the first quarter of 2020. 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 presentation with an overview of our first quarter results by Dean Connor, President and Chief Executive Officer of Sun Life Financial. Following Dean's remarks, Kevin Strain, Executive Vice President and Chief Financial Officer, will present the financial results for the

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quarter. After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management will also be available to answer your questions on today's call.

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

And with that, I now turn things over to Dean.

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

Thanks, Leigh, and good morning, everyone. Let me start with a heartfelt thank you to all of our frontline healthcare workers and those providing essential services. Their response to this crisis has been heroic and we are eternally grateful. I also want to acknowledge the swift and bold actions taken by governments around the world to help bridge jobs, families, communities and businesses through to the other side.

Turning to slide 4, here's how Sun Life has been responding to the COVID-19 pandemic. Our employees and advisors quickly mobilized to work from home to ensure that we continue to be there for clients. We were able to get our trading desk and call centers stood up immediately. And today, 95% of our people globally are working from home. Client service has continued to be strong.

We rarely talk on these calls about the functions that really act as the central nervous system of the company including finance, risk, actuarial, ALM, legal and compliance, HR and technology. These teams at Sun Life have deep experience and expertise. They are the reason why we were able to move to work from home so seamlessly. They have adjusted rapidly to the new norm. For example, with our first and perhaps not our last virtual quarter end process. This remarkable effort is reflected by all of our employees and advisors around the world. Their laser-like focus on clients, their resilience, their capacity to care for one another has been truly amazing to watch.

We've rolled out free virtual healthcare services to our Canadian employees. We also recognize that mental health is extremely important during these trying times and have created numerous resources for employees and families to support their mental well-being.

Our clients need us more than ever and we're doing our very best to accommodate and anticipate their needs. The pace of change has been tremendous. For example, in Canada, we decided to roll out virtual healthcare en masse through our Lumino Health platform. Doing a video consult with a nurse or physician supports physical distancing and lessens the load on Canada's emergency health services while helping our clients manage their health during a stressful time, and 2 million Canadians who are members of the Sun Life Group Benefits plan will be able to access this now along with their family members. We expanded our AI-driven underwriting model to cover more clients at larger face amounts with reduced need for lab tests, which are, of course, difficult to get right now.

In the US, we made it easier for plan members to keep their benefits during temporary layoffs. We added COVID-19 to critical illness policies and extended grace periods for clients to make premium payments. We launched a series of town halls to explain to clients how disability benefits, paid family and medical leave, and the government's new COVID-19 support all work together.

In Asia, we have extended health coverage to include more hospitals and clinics, offered additional cash benefits to cover hospital expenses, expedited claims, waived waiting periods and offered continued coverage for lapsed policies due to quarantine or hospitalization. We're working with regulators to expand the digitization of the end-to-end sales process including replacing a wet

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signature with a digital one. In Hong Kong now, our clients can purchase designated insurance products anytime, anywhere through the new digital sales system and interact remotely with our advisors.

In Asset Management, teams at MFS and SLC management have doubled down on client communication, including the use of virtual tools, with proactive outreach to individuals as well as webinars and other ways to provide our interpretation of market events. We're working with tenants, mortgagors and other borrowers to find solutions when they can't meet their rent or monthly loan obligations.

We've moved quickly to design and launch two new products in SLC Management. We've also donated over $2 million to charities and the communities in which we operate to support at risk populations and provide access to food banks. In the Philippines and China, we donated digital life insurance coverage to doctors, nurses and other medical staff. So, we're doing our part to be part of the solution. And today, our clients need us more than ever and our purpose of helping clients achieve lifetime financial security and live healthier lives has served as our sun, our bright light during these challenging times.

So, with that, let's move to our first quarter results on slide 5. Our reported net income of CAD 391 million was down 37% from the first quarter of 2019 mostly due to the impact of equity market declines. Underlying net income of CAD 770 million was up 7% over the first quarter of last year, and underlying earnings per share were up 9% over the same period. We generated an underlying return on equity of 14.2% for the quarter. And yesterday, we announced our common share dividend of CAD 0.55 per share consistent with the prior quarter.

We came into this crisis in a position of strength. We didn't know when the markets would turn or what would cause them to turn, but over the past few years we have been steadily reducing risk in our general account portfolio, for example, by selling down equities and moving up in credit quality. Our LICAT ratio at SLF remained unchanged from December 31 at 143%, a very strong level, well in excess of the supervisory minimum, and that includes CAD 2.4 billion of excess cash at the holding company.

Our low leverage ratio of 20.7% provides for a significant capital flexibility. And our four-pillar strategy provides us with balanced and diversified streams of earnings and cash flows with a business mix that is less sensitive to interest rates than many of our competitors. In the quarter, we grew wealth sales 66% over the prior year. And a lot of this growth came from MFS, which finished the quarter with record sales driven by continued strong performance and continued investments in client relationships.

Barron's ranked MFS number one on its list of top fund families for 2020. And more importantly, for 5-year and 10-year performance, MFS ranked second and fourth respectively, marking the 11th time in 12 years that it has ranked top 10 or better for 5-year and 10-year performance, so a testament to their long-term focus and ability to generate alpha. Sun Life Global Investments, our Canadian retail wealth manager, also had a strong quarter with CAD 1 billion in net flows, up 61% over the prior year, a quarter in which the industry overall saw net outflows. This growth was driven by our multi-channel distribution platform across GRS, segregated funds and mutual funds by improved wholesaler productivity and by continued strong performance.

As of March 31, 2020, five of our Granite Managed Portfolios received four-star ratings and four MFS sub-advised funds maintain their five-star Morningstar rating over the five-year trailing period. Insurance sales were slightly down from prior year at CAD 776 million. This is mostly from lower large case Group Benefits sales in Canada as well as lower stop-loss sales in the US. That said, the first quarter is typically lower for stop-loss sales, and overall this business has seen tremendous growth as evidenced by its reaching $2 billion of business in-force in the quarter, which is a doubling in size over the past five years.

In Q1 of this year, we combined our International and Hong Kong businesses in Asia under one leader, and we're now calling this International Hubs. This brings our high net worth businesses together, so we can offer our clients and distribution partners competitive solutions and services across geographies.

Insurance sales in International Hubs increased 148% over the prior year with increases from both Hong Kong and International.

Before passing it to Kevin, I'd like to make two general points. First, when a crisis of great proportion occurs – this time a health, economic and even humanitarian crisis – there is often a rush to judgment about how the world will be permanently changed. Amid all the speculation, there's one thing we believe to be absolutely true. The acceleration of everything digital from how we advise clients to how we sell, to how we provide solutions, pay claims and provide service will be a permanent benefit coming out of the crisis.

To be clear, most of our retail clients will still want to work with advisors, but advisor productivity and effectiveness will be turbocharged through data, digital and analytics. At Sun Life, we've invested a lot to digitize our business. With industry-leading technology in many areas, we will leverage this time to further accelerate the development and adoption of everything digital.

And the second point is that realistically this will be a challenging year for financial institutions and there will likely be reductions to sales, in premium and AUM levels, credit impacts and other experience. Kevin will speak to some of the early signals we've seen through to the end of April. I'd say that we've got confidence in our business model and think Sun Life is very well positioned to navigate through to the other side given our business mix, our risks stance, balance sheet strength, and above all our people and our culture.

And with that, I'll now turn the call over to Kevin who will take us through the results.

Kevin D. Strain, Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Thanks, Dean. And good morning, everyone. I'd like to start by echoing Dean's comments on COVID-19. The global pandemic is having a dramatic impact on many people's lives and our thoughts are with all of those who are affected. These are very challenging times, and Sun Life remains committed to doing what we can to support our clients, staff, advisors and partners through this time while managing the business to deliver strong results for our shareholders.

Turning to slide 7, we announced reported net income of CAD 391 million for the first quarter, a decrease of 37% over the same period last year. Our reported net income was impacted by declining equity markets, partially offset by net interest rate impacts and negative ACMA. On an underlying net income basis, we had earnings of CAD 770 million, an increase of 7% from Q1 2019; and underlying EPS was $1.31, up 9%.

Our underlying return on equity for the quarter was 14.2%. The growth in underlying net income was driven by higher investment returns and business growth. Investment returns were driven by investing activity gains, AFS gains and improved credit experience, partially offset by losses on fixed income seed investments and surplus and foreign exchange losses on economic hedges. Business growth was driven by expected profit growth of 10% and new business gains.

Mortality was a small loss on a few large claims in IFM in the US. Morbidity was overall positive, but down versus a strong first quarter last year. Expense experience was weaker on small variances across the businesses. Other experience was down primarily related to some experience losses in our Asian joint ventures and higher project spend.

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Book value per share increased 4% from year-end, mostly due to foreign exchange gains included in other comprehensive income. Capital ratios remain strong with Q1 LICAT ratios of 130% at SLA and 143% at SLF, unchanged quarter-over-quarter as the impact of lower interest rates was offset by share buybacks and the widening of corporate spreads that we saw in the quarter.

It is worth noting some of the actions taken by our regulator in response to COVID-19 related to capital. On March 13, OSFI announced that they expect all federally regulated financial institutions in Canada to halt share buybacks and dividend increases for the time being. Further, on April 9, OSFI announced changes to capital requirements under the LICAT guideline. These changes provide capital relief for payment deferrals on mortgages, leases and other loans, and on payment deferrals for insurance premiums by policyholders. This means that deferrals will continue to be treated as performing assets, and therefore will not attract higher capital charges.

OSFI also granted relief for participating lines of business reducing the impact of a discontinuity in the LICAT ratio caused by a scenario switch related to interest rates. This change effectively smooths the impact of a scenario switch over six quarters. You'll recall that in the third quarter of 2019, we discussed the possibility of switching interest rate scenarios within our sensitivities, creating a discontinuity in LICAT results that would have caused an immediate drop in our ratio. While we did not experience a shift in the interest rate scenario in the first quarter of 2020, we did adopt the new guideline.

SLF cash at the end of March was CAD 2.4 billion, a slight increase since Q4. Prior to OSFI's announcement halting share buyback programs, we had repurchased CAD 200 million worth of shares in the quarter under our NCIB. Our financial leverage ratio was 20.7%, down quarter-over-quarter, reflecting growth in total capital primarily related to accumulated OCI.

Assets under management finished the quarter at CAD 1.023 trillion, down by CAD 76 billion, mostly from unfavorable market movements partially offset by the impact of foreign exchange translation and business growth.

Turning to slide 8. Despite a challenging economic environment, we had reported net income growth in three of our four pillars and underlying net income growth in all four. On a reported net income basis, Canada reported a loss of CAD 42 million in Q1, reflecting unfavorable market related and ACMA impacts. Market related impacts were mostly driven by the decline in equity markets, partially offset by the impacts of credit and swap spreads. Canada's underlying net income was up CAD 256 million, was up 8%, driven by business growth and higher investing activity and AFS gains, partially offset by lower net investment returns and surplus, unfavorable expense experience and unfavorable morbidity experience in Group Benefits.

The US saw a 32% increase year-over-year in reported net income, driven by favorable market related impact predominantly from widening credit spreads, partially offset by unfavorable ACMA impacts. In in-force management for underlying net income, the US had 7% growth driven by higher investing activity, higher AFS gains and new business gains, partially offset by unfavorable mortality experience and positive but less favorable morbidity experience. Last year, we had elevated favorable morbidity experience in the first quarter of 2019, which we noted would revert to the mean over time. The after-tax profit margin for Group Benefits in the US was 6.8% on a trailing 12-month basis compared to 7.9% in the prior year.

Asset Management reported net income grew 9% driven by favorable fair value adjustments on MFS share based payment awards, partially offset by higher acquisition and integration costs related to the BGO acquisition and the pending InfraRed transaction. Our asset management businesses grew underlying income by 7%, driven by higher average net assets at MFS and higher income in SLC management driven by the BGO acquisition that closed in 2019, partially offset by lower net investment returns in MFS seed capital mostly driven by widening of credit spreads.

Asia reported net income grew by 25%, stemming from growth in underlying net income which increased 27% over the same period last year. This growth was driven by favorable credit experience, new business gains primarily in International Hubs and improved mortality experience, partly offset by unfavorable joint venture experience.

Slide 9 provides details on our sources of earnings. Expected profit of CAD 816 million was up 10% year-over-year from a continued business growth particularly in our Canadian and Asset Management businesses, which increased 16% and 12% respectively. Excluding the impacts of currency and Asset Management, expected profit increased 12% from the prior year. New business gains were CAD 6 million in Q1 compared to the new business strain of CAD 11 million last year, driven by higher gains in our US business and lower strain in Asia as a result of higher sales in International Hubs.

Experience losses of CAD 111 million pre-tax were largely driven by unfavorable market related impacts primarily from the recent decline in equity markets and interest rates, partially offset by the impact of credit spreads. Experience losses also include unfavorable credit experience, policyholder behavior, expense and other experience offset by investing activity gains. ACMA of CAD 66 million pre-tax for the quarter related to an increase in the provision for adverse deviation for fixed income asset credit spreads. The sharp increase in credit spreads during March meant credit spreads at the end of the quarter were outside the historical range, which drove higher credit spread experience gains during the quarter. The increase in credit spread provisions partially offset these experience gains in our source of earnings. Other in our source of earnings includes acquisition, integration, and restructuring costs, partially offset by favorable fair value adjustments on MFS share-based payment awards. The restructuring cost we recorded in our Corporate segment includes severance costs as a result of various ongoing projects initiated in the fourth quarter of 2019 to simplify our organizational structure and drive efficiencies.

Earnings on surplus of CAD 116 million were down CAD 9 million compared to the first quarter of last year, driven by lower net investment returns on surplus assets and losses on seed investment returns as a result of widening credit spreads, partially offset by higher AFS gains.

Our effective tax rates on reported and underlying net income were 42% and 18.5%, respectively. Our effective tax rate on reported net income reflected the impact of tax-exempt investment losses, primarily driven by the widening of credit spreads. These losses were offset in actuarial liabilities on an after-tax basis. On an underlying basis, our effective tax rate was within our range of 15% to 20%.

On slide 10, we show our sales results for the quarter. Total company insurance sales for the quarter were relatively flat year-over-year at CAD 776 million, with Canadian sales down 19% due to the lower large case sales in our Group Benefits business and lower third-party individual insurance sales.

First quarter sales in the U.S. were up 2% on a constant currency basis from the same period last year, as higher employee benefit sales were offset by lower sales in our medical stop-loss business. We had strong individual insurance sales in Asia, up 22% on a constant currency basis, driven by strong growth in Hong Kong and International, as well as the Philippines.

Wealth sales across the company increased 66% year-over-year, as Canada had strong sales across most product lines, including GRS, which saw heightened retained sales. MFS saw high retail and institutional sales, which drove the 65% growth in Asset Management sales on a constant currency basis.

Overall, MFS experienced net inflows of USD 1.8 billion in the quarter, a significant improvement reflecting the strong retail net flows and moderate outflows from institutional clients. During the last

two weeks of the quarter, MFS saw retail flows slow down due to market conditions, but this slowdown was offset by better institutional flows as some clients rebalanced towards equities.

Finally, wealth sales in Asia increased by CAD 409 million, or 22% year-over-year, excluding the favorable impact of foreign exchange translation driven by money market sales in the Philippines and the pensions business in Hong Kong. Total VNB was CAD 380 million in the first quarter of 2020, a decrease of 1% compared to the same period in 2019, reflecting lower VNB in the U.S. on pricing margins and Canada from lower insurance sales; partially offset by higher VNB in Asia from higher sales in International Hubs.

Turning to slide 11; operating expenses of CAD 1.7 billion were up 3% on a constant currency basis. Controllable expenses were also up 3% compared to the prior year and include our investments in digital, as well as costs to support our growing businesses. Restructuring costs of CAD 37 million this quarter are in addition to those we recorded in the fourth quarter of 2019. Cumulatively, we expect this will result in expense savings of approximately CAD 85 million pre-tax with some savings starting to come in through 2020. In addition, we are taking a look at non-FTE-related expenses to achieve savings such as in travel, consulting, and pulling down some projects in a way to save costs during the year.

Turning to side 12, we've included a high-level view of our invested assets as at the end of the quarter with some highlights on our debt and mortgage and loan portfolios, as we are faced with heightened uncertainty on potential credit impacts in this recessionary environment. Overall, 97% of our fixed income portfolio is investment-grade, and our BBB exposure is skewed towards the higher end in terms of quality.

35% of our BBB exposure is in private debt with strong collateral and covenant protections. Our portfolio of invested assets is well diversified and of higher quality, which is a testament to the work we've done over the years to de-risk the balance sheet, reduce our exposure to volatile sectors, and develop strong private loan origination capabilities.

Turning to slide 13, we provide some additional details on sectors that we believe pose higher risks at this time. We've been preparing for late stages in the credit cycle for a while now, but we certainly did not anticipate the current crisis. We have taken deliberate and substantive steps to de-risk the portfolio. This includes reducing our BBB- rated securities by CAD 1 billion and reducing our exposure to the energy sector by over 10%.

The exposures we've included here are those we expect to be most affected by the slowing economy, social distancing measures, and lower oil prices. This includes our oil and gas exposures in addition to aviation, hotels, restaurants, leisure, and certain real estate holdings. Approximately 97% of our debt securities and private loans across these sectors are investment-grade, with approximately 47% BBB-rated. And as I mentioned before, a good portion of our BBB-rated portfolio is in private loans, which are well collateralized and have strong covenants against them.

Turning to slide 14, we are actively monitoring the impacts of COVID-19, and we know that a lot of you are interested in what April looks like for sales, claims, and other items impacted by the COVID-19 crisis. We think it is important we give you a view into what we are seeing. Throughout April, we've been able to continue sales activities using digital tools and processes. Overall, in the month of April, sales were mixed, with total individual insurance sales and wealth – individual wealth sales at approximately 80% and 90%, respectively, of the prior year.

We saw some markets growing as a result of digital tools, preexisting sales pipelines, repricing, and return to work efforts in China and Hong Kong; but some markets like the Philippines, India, Malaysia, and Indonesia, saw significant declines in April from strict quarantine protocols impacting face-to-face and bancassurance sales.

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For Group Benefits and Pensions, April premium volumes and assets in-force were relatively unchanged from the end of first quarter. As a result of the mixed experience and uncertain return to work timeframes and economic conditions, Q2 sales levels remain uncertain at this time.

To-date our mortality and morbidity cases has been small, amounting to less than 5% of our monthly average for mortality and disability claims paid. And some of the additional COVID-19 claims experience has been offset by lower claims in other areas. Q2 experience remains uncertain and will be greatly impacted by the jurisdictions and industries where we do business and the success these jurisdictions have in reducing the spread of the virus.

To support our clients who may be facing financial hardships, we've extended grace periods for premium payment for individual insurance and Group Benefits clients for up to 90 days. This extension of grace periods has not created a significant impact on premiums. Should we experience a prolonged period of non-payment, we may see increases in lapse and other policyholder behavior.

Similarly for our borrowers and real estate tenants, we have granted interest, principal, and rent payment deferrals on a case-by-case basis. During the month of April, we granted payment deferrals of just less than CAD 15 million with additional requests currently under assessment. The month of April saw MFS AUM grow 8% to USD 471 billion.

Going forward, there are many potential impacts that could result from a prolonged economic downturn and the path the virus might take, which may affect our business in different ways. This includes the impact of markets on our wealth and asset management businesses, the impact of downgrades and impairments on our asset portfolio, or continue to operate in an even lower for longer interest rate environment. We are actively monitoring these aspects and the impact they may have on our results.

To conclude, we came into this pandemic with strong capital and liquidity positions supported by a low financial leverage ratio, strong LICAT ratios, and CAD 2.4 billion in excess cash and other liquid assets at March 31, 2020. This, coupled with our diversified business mix, strong risk management framework, and track record of bringing digital solutions to our clients underpin why we believe we are well-positioned to manage through this situation.

With that, I'll turn the call back to Leigh to begin the Q&A portion of the call.

Leigh Chalmers, Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.

Thank you, Kevin. To ensure that all of our participants have an opportunity to ask questions on today's call, I would ask each of you, please, limit yourself to one or two questions and then to re-queue with any additional questions.

With that, Deketria, please poll the participants for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question comes from the line of John Aiken with Barclays.

<Q – John Aiken – Barclays Capital Canada, Inc.>: Hey. Given the measures taken by the regulator in terms of limiting the dividend increases and buybacks, how do your capital allocation priorities shift; and has there been any guidance from the regulator in terms of restricting potential M&A?

<A – Dean Connor – Sun Life Financial, Inc.>: John, it's Dean. Thanks for your question. I think the – as you note, the OSFI – and Kevin referred to this – OSFI changed the rules, I guess, in March to limit dividend increases or restrict dividend increases and buybacks. I mean, I think the way we think about that is buybacks have been one aspect of capital allocation for Sun Life in the past. And of course right now it is moot because OSFI has put these rules in place. But when that requirement is eventually lifted – and I can't say when, I don't think anybody can say when – but when that requirement is eventually lifted, share repurchases will be back in the line-up as one of the tools we use to allocate capital.

As far as M&A goes, I think the – we continue to be looking at opportunities that fit our strategy that tick all of the boxes that we've talked about before. I think in this environment, it's natural that we would evaluate those M&A opportunities in light of both our, sort of, base case scenarios and our severe stress scenarios. As you would expect, we've built scenarios for the business going forward depending on how things unfold, and we would make sure that we think about these opportunities in light of both the base case and the severe case scenarios. And I would expect that OSFI would want to see those kinds of analyses as we go forward with any opportunities we might see. So, I'll stop there.

<Q – John Aiken – Barclays Capital Canada, Inc.>: Thanks, Dean. Just to reiterate though, outside of your own appetite, no explicit restrictions on M&A from the regulator?

<A – Dean Connor – Sun Life Financial, Inc.>: Correct. If they had put them in, you would have seen – I expect you would have seen them publish that, and you've not seen that.

<Q – John Aiken – Barclays Capital Canada, Inc.>: Great. Thank you very much. I'll re-queue.

Operator: And your next question comes from the line of Steve Theriault with Eight Capital.

<Q – Steve Theriault – Eight Capital>: Thanks very much. A couple questions, maybe starting with hedging. Can you talk a little bit about how pleased or if there was any issues with the hedging program, just given the extreme volatility we saw this quarter. And thanks for the expanded disclosure in the appendix. I wanted to ask, the CAD 57 million of basis risk, that's about 10% of the equity market impact. Is that pretty normal, or does that pick up in times of volatility? Yeah, I'll leave it there.

<A – Kevin Strain – Sun Life Financial, Inc.>: Okay. Steve, it's Kevin Strain. I'm going to give the first part of this answer, and then I'm going to turn over to Kevin Morrissey. If you look at that basis changes, it's about – half of that is from fund performance, and so the underlying funds underperformed the indexes; and about half is from hedging volatility, which kind of gets at your first question. And then I'm going to let Kevin go into a little bit more detail on how the hedges performed in addition to that.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Hi, Steve. This is Kevin Morrissey. So, I wouldn't attribute kind of any proportions to the basis risk. It's pretty idiosyncratic on what happens in the quarter. I would say, overall, we were very pleased with the hedging programs. They were

quite successful. All our metrics were very much in line with our expectations. And to give you a sense for the size of the performance, the actuarial liability increased by about a CAD 1 billion in the quarter related to market movements, and the hedge pay-off covered almost all of that. So we were very pleased with the result overall for the hedging, including the basis risk number.

<Q – Steve Theriault – Eight Capital>: And is there any expectation that hedge costs go higher at all after the market decline?

<A – Kevin Morrissey – Sun Life Financial, Inc.>: So, there is an increase from – Steve, it's Kevin again, there is an increase in the hedge costs, so we have a dynamic hedge program. So, there is a rebalancing cost and, with higher volatility in the market, the cost did increase; but that's kind of a natural consequence to that hedging program and it didn't turn out to be a huge number in the quarter. But it is something that was elevated and just a natural consequence of having that type of dynamic hedging program.

<Q – Steve Theriault – Eight Capital>: Okay. And then last one, if I could, the MFS results were very solid obviously, but I do want to ask about performance. I would have thought that the Lipper metrics that you give us regularly would rise on a significant market correction. But they – not that they moved a whole lot, but they did deteriorate especially at the shorter end. So just wondering, is this at all related to the resilience of, sort of, the FANG stocks? Is there anything we can take away from that? That'd be helpful.

<A – Mike Roberge – Sun Life Financial, Inc.>: Hey. Good morning, Steve. This is Mike Roberge. Yeah, we look at – obviously, we direct everyone to look to longer-term numbers. We think that's more relevant to what clients are looking at. But what I would say on the shorter timeframe, given our credit focus to fixed income, we were impacted by the significant widening of spreads that we saw in March, and we would expect over time that – particularly, given the backstop – that the Fed and other central banks have provided that the yield will come through the portfolios.

The way that those numbers are constructed are based on a share – the A share class which has distribution fees, and we started showing that a decade-plus ago. Most of that A share class assets are – a lot of now are in fixed income, so it skews the results. When you look at it based on where clients are, the client experience, if I use our institutional shares which doesn't have the trail commission, the one-year number would be 91% are outperforming. So, some of that is just a function of the share class that we're pulling relative to the industry share class. And so we're not at all concerned about performance; long-term performance continues to be strong. Where we've seen a little bit of under-performance in the fixed income side we think will come back over time through yield in the portfolios.

<Q – Steve Theriault – Eight Capital>: Great. That's helpful. Thank you.

Operator: Your next question comes from Doug Young with Desjardins Capital Markets.

<Q – Doug Young – Desjardins Securities, Inc.>: Good morning. Just first question, back to the disclosure around 80% to 90% – where April sales were in individual insurance and wealth around 80% and 90% of last year's levels. You gave a little bit of color – and I didn't catch it all I apologize – for Asia. Can you talk a bit more broadly by geography – Canada, U.S. – and a little more granularity in terms of what you're seeing?

<A – Kevin Strain – Sun Life Financial, Inc.>: So, I'll start out, Doug, and I'm going to let Léo go into a little bit more detail on Asia, and Jacques and Dan can talk about their business groups as well. But that comment was related to overall across the company. And what you do see is that jurisdictions that are sort of going back to work and coming out of the work from home and social

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distancing environments like China/Hong Kong, are picking up. And then the jurisdictions that are experiencing strict quarantine are declining.

We are doing a lot on the digital front to support our agents across the world selling including electronic signatures. So, a lot of regulators were not in favor of electronic signatures up until COVID-19, and they're becoming much more open to that. And we think that, that's a really, really good development for the industry going forward. So, we saw that happening in a bunch of different areas.

But I'll let Léo talk a little bit more on the experience in Asia, and maybe Jacques and Dan can add some color.

<A – Léo Grépin – Sun Life Financial, Inc.>: Hi, Doug. It's Léo here. So, for the experience in Asia, what we saw overall is pretty consistent with what Kevin described at a global level. For April, our sales were about 80% of last year on the insurance side and about flat to last year on the wealth side. And what we're experiencing is very similar to what Kevin just talked about; basically, we've got a barbell situation across our different markets.

We got certain markets that are out of lockdown and where the economy has started to pick up again and where activity is strong. So, for example, in International Hubs, and in China and in Vietnam, we're seeing some strong sales. And then you've got other markets like the Philippines, India, Indonesia, and Malaysia where we're still in lockdown mode. And in those markets, we're seeing more depressed sales compared to prior year.

So, really, what you're seeing across the region is you've got basically the impact of lockdowns; that's one big factor. The second impact is once you're out of lockdown how quickly sales and the economy pick up again. On the basis of places like Vietnam or China, we're actually seeing a reasonably strong pickup, and we think – we've used our time well over the course of Q1 to really strengthen our non-face-to-face capabilities to our advisors, as well as our banca partners, as well pushing recruiting across the region. So, we're driving sales, but obviously there's some uncertainty based on the economic environment and the restrictions with social distancing.

<A – Jacques Goulet – Sun Life Financial, Inc.>: Doug, this is Jacques. Maybe – I won't repeat all that Léo and Kevin have said, but perhaps add a bit of color on Canada, as you know, we have the individual but also the Group businesses. In GB and GRS, what we are seeing right now is employers are really focused on managing their business during the COVID [COVID-19] crisis. So there is indeed a lower level of activity.

<A – Leigh Chalmers – Sun Life Financial, Inc.>: Sorry, Jacques – Sorry, Jacques, to cut you off. Can you maybe keep your keyboard away from the phone. It's making quite a loud noise.

<A – Jacques Goulet – Sun Life Financial, Inc.>: I'm not on the keyboard.

<Q – Doug Young – Desjardins Securities, Inc.>: Yeah, sorry.

<A – Kevin Strain – Sun Life Financial, Inc.>: I think it's Doug.

<Q – Doug Young – Desjardins Securities, Inc.>: This is Doug. Yeah. I think – that's me. I'll stop typing here.

<A – Dean Connor – Sun Life Financial, Inc.>: Doug, we're impressed with the speed of your typing.

<Q – Doug Young – Desjardins Securities, Inc.>: I will be a secretary in my second career here, so yes.

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<A – Jacques Goulet – Sun Life Financial, Inc.>: So, Doug, you want me to start at the beginning, I guess, I'll just give you some additional points that weren't raised mostly by Kevin and Léo. And on the Group side in Canada, both GB and GRS, what I was saying, Doug, is, our clients are really busy managing their business through COVID [COVID-19] right now, and we are seeing less activity. Now, it's not just less activity for us; it's less activity in my view across the industry. So, while there is a potential impact on sales what I would expect is similarly that will have a positive impact on retained business.

So that's the additional comment I want to give you. As Kevin said, lots of deployment of digital tools and so on, and the April impact has been minimal. Now, as we've all said, the question is how long is this going to last; and we'll start seeing more of an impact over time, but at the moment that would be what I would comment on April.

<A – Kevin Strain – Sun Life Financial, Inc.>: And, Dan, if you had some color for the U.S.?

<A – Dan Fishbein – Sun Life Financial, Inc.>: Yeah. Let me just add a little bit, Doug. This is Dan Fishbein on April. Interestingly, what we've seen in each of our businesses in Group, in our Fullscope business, and stop-loss was increased sales in April 2020 compared to April 2019. It was up modestly in Group, significantly actually in Fullscope, and quite significantly in stop-loss. Some of that is that April maybe tends to be a somewhat smaller month, so you can have some volatility. But, clearly, we were happy to see that sales are holding up, and even more than that.

Now, we are looking very closely at pipeline as well. In our Group business, pipeline is down significantly. So that suggests we could see lower sales in the next few months. Interestingly, the stop-loss pipeline is stable; it has not dropped, suggesting that that's a business where sales activity may very well continue.

And as Jacques said though, if we have lower sales in Group, that is an industry-wide phenomena, because human resources departments are very focused as they should be on other things right now. So it also means that, our existing business wouldn't be going out to bid as well. So, while we might see lower sales, we would also see lower lapse rates in our own business as well.

<A – Kevin Strain – Sun Life Financial, Inc.>: And Doug, it's Kevin, I would – Kevin Strain again, I would say that while we've given you April, April is one data point and it's six or seven weeks into the pandemic for most of our businesses, our North American businesses. And so, it may not be reflective of what we will see going forward, and it may be different by jurisdiction and by sector, and do you have a second wave, and some of those types of things. So, what we can say is that we're doing everything we can to continue to see sales occur, to manage that, to create digital tools, and to work virtually. But there can be lots of plausible outcomes going forward around sales, depending on the path of the disease and the economy.

<Q – Doug Young – Desjardins Securities, Inc.>: Perfect. I appreciate the fulsome of the answer. Thank you very much.

<A – Kevin Strain – Sun Life Financial, Inc.>: Okay. Thanks, Doug.

Operator: And your next question comes from the line of Gabriel Dechaine of National Bank Financial.

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Good morning. I'll just push my typewriter aside. First of all, thanks for the disclosures, a lot of enhancements here that are very helpful. One thing I want to go over in your COVID-19 business impact type of items; you talk about the policy behavior and other – mortality/morbidity, I can get my head around that – but can you tell me what you're thinking with regards to lapse and other? In some cases lapse could be good,

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sometimes it could be bad, and then the other. What do you guys have in mind – or people, what do you have in mind?

<A – Kevin Strain – Sun Life Financial, Inc.>: So Gabriel, it's Kevin – Kevin Strain. And what we're trying to say there is that we've been offering premium deferrals, right, and premium deferrals of up to 90 days and we've done that in many locations and extending that. And that gives people a chance to – if they're out of work for a short period time or on furlough or those types of things, to get a chance to react to that and get back to paying or get back to work.

And so if we're under extended period where there is drops in unemployment rates and those types of things and premiums can't get paid, you might expect that there would be more lapsation. And then on the Group Benefits business, if you see unemployment and terminations, you'll have less members and that would also have an impact. And those impacts on the Group Benefits side will likely be different by sector and jurisdiction, so we're just sort of pointing out that it's too early to say whether this will have a significant impact on lapse or maybe changes in investments or those types of things, policy loans, that type of things.

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Okay. But you're – I mean from a lapse standpoint, it can go either way; like it could be good, it could be bad. Is that not right?

<A – Kevin Strain – Sun Life Financial, Inc.>: That's correct. It depends on the products, right.

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Okay. So the next question is on the – on credit. And I'm wondering, if there is some sort of a rule of thumb. So we have a CAD 50 million net credit loss experience loss on a gross basis, CAD 39 million or CAD 40 million was due to downgrades. Is there any way to quantify how many bonds that was associated with? Because I really don't know how to connect the dots between downgrades and some sort of earnings impact on the downgrade front especially. And then yield enhancement gain, big numbers this quarter; with wider spread and some asset revaluation, is that something that could potentially continue at a high rate?

<A – Kevin Strain – Sun Life Financial, Inc.>: Okay, those are – it's Kevin Strain again. Those are big questions Gabriel, so I'm going to start with credit. And I do want to point out some things that it's – first it's important remember that we are under that Canadian asset liability management method IFRS 4 and we don't follow IFRS 9 and we do have different sort of accounting treatment than the U.S.

And if you think about that, our provisions for credit are inside of the actuarial liabilities, where we hold a reserve of CAD 2.7 billion and that includes the best estimate assumption and the PfAD. That reserve also includes provisions for credit rating and credit downgrades, and you saw that we had a hit in the quarter of CAD 39 million related to downgrades. That was actually a small number of downgrades, so it wasn't a big number; and in fact, in April, we continued to just see a small number of actual downgrades, but we – that gets provided for, that's part of the CAD 39 million...

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Right.

<A – Kevin Strain – Sun Life Financial, Inc.>: ...that's in the reserves. And then in addition to that, we had an impact of CAD 1 million on impairments. And those impairments are, again, a small number of the [ph] main credit (00:49:29). That part goes to investment income. And so it's really good to think about these in two different portions.

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Uh-huh.

<A – Kevin Strain – Sun Life Financial, Inc.>: Does that help?

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Yeah. Well, the small number of downgrades, I guess, that's the – I get the mechanics of how it works, it's just – yeah, how – yeah. And then the yield enhancements?

<A – Kevin Strain – Sun Life Financial, Inc.>: On the yield enhancements, yeah, so in terms of investing in AFS gains, there was a decline in interest rates of course during the quarter, and that allowed us to sell some fixed income assets at gains. And we were able to take those gains and then sometimes – at the same time the credit spreads widen, right. And there was some really good names that came out with very positive credit spreads, and we were able to acquire some fixed income assets that we put against the liabilities that were high-quality names with good credit spreads.

And so, you actually got sort of both impacts: you've got the lower, sort of, base interest rates creating gains on the more public, sort of, investments, more government investments; and then you've got the positive impact of the widening spreads and some really good names we're able to invest in.

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Yeah. Is that something that could continue?

<A – Kevin Strain – Sun Life Financial, Inc.>: Well, interestingly, it was outside of course in the quarter. If you looked at the eight quarter average ending this quarter, it would have averaged CAD 33 million. And I think that's probably a good way to think about on average what we'd expect from investing gains. At the same time, you should remember this quarter that we did see the widening of credit spreads impacting some of our seed investments in fixed income. We've been seeding some investments in Sun Life Capital, and we've been seeding some fixed income investments in MFS as part of their strategy. And when the credit spreads widened, we actually took a loss on those investments. So, it's a bit of a balance between the investing gains and the seed capital losses with the impact of the credit spreads.

<Q – Gabriel Dechaine – National Bank Financial, Inc.>: Thank you.

Operator: The next question comes from the line of Meny Grauman with Cormark Securities.

<Q – Meny Grauman – Cormark Securities, Inc.>: Hi, good morning. A question, we know that Asia is ahead of us in terms of dealing with the pandemic and coming out of the lockdowns. So I'm just curious given the spread of your operations if you look to Asia as a guide for what's in store for North America for your business, are there any lessons that you can start to draw from there?

<A – Dean Connor – Sun Life Financial, Inc.>: Léo, do you want to take that.

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah. I can try, Dean; although, sometimes it feels like Asia is now behind North America in many ways. If you look at the scale and scope of the pandemic in North America. But definitely we went into this sooner, and what we saw obviously is quite different responses across different markets even within Asia. I think you're seeing the same thing in North America between states and provinces.

What we've learned from a business standpoint is obviously in situations where the markets like Hong Kong where the markets don't go in complete lockdown or in places like Vietnam as a business that has continued to run reasonably well, advisors are out meeting with clients and client demand is actually quite strong. What we're perceiving is that the demand for our products have never been stronger, the awareness of their needs by clients has never been stronger. So I think that's one learning in places where movement is still possible across markets.

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The second thing that we're seeing is that in markets like China where the lockdowns were effective and where the economy reopened and people went back to work even though there were social distancing types of norms in place, we saw a very sharp rebound in sales. And so in markets in North America, where that may be the case, I think there are some potential optimism to see for the industry.

And then the third thing that I'd say is that across our markets we're seeing digital everywhere being the norm. Our clients are using our applications, our portals a lot more than before. Our advisors are also leveraging our capabilities a lot more, and I'd expect that, that behavior will continue post the crisis. So investment in digital, which is something we've been doing very actively, I think will pay off.

And then the final thing that I'd mention is unemployment has been going up across markets in Asia; and, for us, that's allowed us to continue and be quite aggressive on recruiting of advisors. And it's allowing us to find very high quality candidates for our agencies. And so, I could see that as also being something that ports over to other markets.

<Q – Meny Grauman – Cormark Securities, Inc.>: Thank you.

<A – Dean Connor – Sun Life Financial, Inc.>: Operator, could we go to the next question?

Operator: Yes. Your next question comes from David Motemaden.

<Q – David Motemaden – Evercore Group LLC>: Just a question for Dean. Just following up on M&A. Just wondering, I guess, how you view M&A now compared to the end of 2019 where Sun Life is definitely still in a very solid capital position with CAD 2.4 billion of cash at the holdco and a strong SLA LICAT ratio. Valuations have come off a bit since the end of 2019. Do you foresee being a bit more active as a result?

<A – Dean Connor – Sun Life Financial, Inc.>: David, thanks for your question. I would say that we continue to be active looking at opportunities around the world across our pillars that fit our strategy and tick all of our boxes. We entered this, as we've said and as you've noted, with a very strong position – very strong capital position. Anything we look at we'll evaluate it against our different scenarios, including a severe stress scenario.

One of the things that we're watching for is to what extent is the opportunity set widening, and we saw that during the global financial crisis; more things came to market, There were fewer bidders, those with strong balance sheets and strong financial positions had the capacity to execute on M&A. So, it's too soon to declare anything on that particular point, but that's something that we're watching for as well. But I would say we continue to be active in pursuing opportunities that fit our strategy and we'll see where that takes us.

<Q – David Motemaden – Evercore Group LLC>: Understood. Thanks. And then if I could just ask a question for Mike on MFS just in terms of how we should think about operating expenses within MFS where they were up about 6% year-over-year if we take out MFS share-based comp. I guess, where should we think about that trending over the rest of the year just given market levels?

<A – Mike Roberge – Sun Life Financial, Inc.>: Hey. Good morning, David. This is Mike. Comp expense, which is our largest expense, will come down as profitability comes down depending on where the market settles in for the year. We're going to be pretty cautious on, obviously, discretionary T&E, as an expense that's effectively gone to zero; and some of our other distribution costs that support clients have come down. And so costs will naturally come down. We're not looking to cut labor as part of this or cut head count, because clearly there's another side to this, and people give us their money to manage for hopefully a long period of time, and so we're going to continue to look through that.

And so expenses will come down naturally, but they won't come down – they don't decline quite as much as revenues tend to decline. So, there is some negative operating leverage in it. And so I think for the balance of the year, it's hard to think about what earnings look like only because it depends what the market does and it depends on when the market either goes up or goes down from a timing perspective.

And so we think about this looking through – looking over the next three to five years having an expense base that we think makes sense through that period of time. The market will go up for periods of time, it'll go down for periods of time, and we can flex down discretionary costs during periods like this, but the more important thing for us is to kind of think about it on a multi-year basis.

<Q – David Motemaden – Evercore Group LLC>: Got it, great. Thanks, that makes sense. And if I could just make one more in, Mike, the USD 471 billion of AUM at the end of April, and there was I guess a mentioned in the prepared remarks on the flows in retail which are – have clearly been very strong. Those kind of tapered off at the end of March and were offset by higher institutional flows or were offset by that to a large extent. I'm wondering if you can just maybe talk about what you've seen through the end of April on both – just on the net flows fronts if we're thinking about both sales and then redemption activity?

<A – Mike Roberge – Sun Life Financial, Inc.>: Yeah. I mean I guess I would characterize it – I don't know what – maybe Kevin can jump in when I'm done what we've made public. But I would just characterize that the market – and this is true when you look at industry sales in April, coming into the year, January and February, were decent industry months and we obviously outperformed that. March was a big outflow month for the industry.

In April, if you look across the industry, it looks more normal than what we saw happen in March. And I think it's important to say that for the quarter is we had record gross sales for the quarter. We actually had a record gross sales for March relative to other Marches as well. So, we continue to see really high activity.

When we look at the net flows across the industry, if you look at the top 25 players in the U.S., there were only three there were net positive in the quarter and MFS was one of those. The other managers tend to be fixed income oriented and we're multi-product, selling a lot of equity. So, we're clearly gaining share within the marketplace. And when you look year-to-date of the 700-plus providers in the U.S. selling product, we're number three in net sales through the end of the first quarter.

And so, we continue to think that the industry is going to consolidate in those active managers that our counterparties have confidence in. We're seeing that in our business. We saw that in the first quarter. The flows across the industry has normalized some in April, and if the market stays here, we would expect that to continue to happen.

<A – Kevin Strain – Sun Life Financial, Inc.>: Mike, I think you've covered all the aspects I would cover. We don't disclose flows on a monthly basis. And so, I think we did give the number and MFS does always publish the number for AUM at the end of each month and we disclose that.

<Q – David Motemaden – Evercore Group LLC>: Great. Thank you.

Operator: Your next question comes from the line of Sumit Malhotra of Scotiabank.

<Q – Sumit Malhotra – Scotiabank Global Banking and Markets>: Thanks. Good morning. A couple of questions on credit to start for Kevin; you touched a little bit on this. Since you're giving some update in April for parts of the business, would you be able to comment – I think you said there's been – downgrades have continued, but in aggregate how has credit experience trended

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thus far in Q2? And related to that, when you were going over the slides, you made mention of your private loan portfolio. Just wondering, because there's different pieces of loans, you have the mortgages obviously, you have some corporate loans; are these marked in terms of experience the same way as the debt securities was in terms of downgrades affect them the most, or is this based more on actual default experience and impairments?

<A – Kevin Strain – Sun Life Financial, Inc.>: Okay. So, Sumit, I'll start with the first part and I'm going to let Randy Brown give some more detail on the privates and how we do the ratings in the privates. And as I said, you know for the first quarter, in Q1, we reflected everything we saw in terms of downgrades and impairment; it was a relatively small number. And in April, we continue to see a relatively small impact for downgrades and impairments.

Going forward that can be a lot different, right. Remember that we're just six weeks or seven weeks into the COVID-19 crisis in North America, which is the biggest part of our balance sheet. And so, under our accounting treatment, we're reflecting everything we need to and can reflect inside of the actuarial liabilities and inside of the impairments, and those are the numbers that you're seeing. They're relatively small at this point, but it is something we're watching really closely and that's why we gave the additional information on sectors and on some of the investment – the BBB ratings and those types of things.

So maybe I'll turn that over to Randy to just add some detail on the privates and how we do the ratings.

<A – Randy Brown – Sun Life Financial, Inc.>: Thank you, Kevin, and thank you for your question, Sumit. This is Randy Brown. So, within the private asset classes, the process is exactly the same as it is for the public asset classes. We look, we track the exposures every day. And if there's downgrades, we look at the security also if there's impact on cash flows, then we look to them from an impairment basis. So, remember, downgrades are more forward-looking; impairments are more real-time. So, we continue to follow that process.

We did note a couple things Kevin spoke about in his opening remarks, which is we have taken significant opportunity to de-risk the portfolio in prior periods, which included reallocating some credit exposure from publics to privates. The reason for that is that we have covenant protection. We're in the senior secured position typically in our private portfolio relative to publics, which are unsecured. And so, we have a long history of experience in the asset class in originating them internally. And if you look at that, the credit experience is significantly better than comparably rated public bonds.

<Q – Sumit Malhotra – Scotiabank Global Banking and Markets>: And, Randy, I asked because on page 24 of your supplement you do give us some information on impairments and allowances for the mortgage and loan portfolio. Would the privates be captured in that loan bucket there because at least, sequentially, it doesn't look like there was any deterioration at all.

<A – Randy Brown – Sun Life Financial, Inc.>: Yes. Yes, it would be.

<Q – Sumit Malhotra – Scotiabank Global Banking and Markets>: All right. That's something we'll monitor going forward. And then last one from me, back to Kevin. On the assumption change in the quarter related to the widening of credit spreads, I just wanted to make sure I understand how this reflects in the experience going forward. So by making this change, you have essentially – maybe this is the wrong term to use – but marked-to-market the widening in credit spreads. How would that affect the yield enhancement experience gains that the company has consistently derived from being able to pick up additional income in the market. Are those two related in any way or am I not thinking about this correctly?

<A – Kevin Strain – Sun Life Financial, Inc.>: So, Sumit, I'm going to turn that over to Kevin Morrissey.

<Q – Sumit Malhotra – Scotiabank Global Banking and Markets>: Okay.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Thanks for the question, Sumit. It's Kevin. So, those two are not related. So, the ACMA change in the quarter was related to the future reinvestments that we were assuming in the valuation. And so, what we did is as we increased our provision for adverse deviation related to our best estimate assumption, the greater level of uncertainty given the credit spread volatility, we felt it was prudent to strengthen that a bit. As credit spreads widen, we saw significant gains from investing activity. That will still be available and that will not be impacted by this assumption. This assumption is really related to that forward-looking assumption in the actuarial reserves, and it will release naturally if credit spreads revert back to more historic levels as well.

<Q – Sumit Malhotra – Scotiabank Global Banking and Markets>: That's helpful. Thank you for your time.

Operator: The next question comes from the line of Darko Mihelic with RBC Capital Markets.

<Q – Darko Mihelic – RBC Capital Markets>: Hi. Thank you. Just real quickly, also wanted to sort of focus on credit here. When I look at page 24 of your supplement you were just talking about it with Sumit, I noticed that the sectoral went from CAD 20 million to CAD 21 million quarter-over-quarter which in the grand scheme of things is basically immaterial. So, the question is, is this perhaps something that's sort of on autopilot right now, and then later you do a deeper dive on credit and there's a potential here that you will have to build a much larger sectoral reserve, say, in Q3 when you do your normal deep dive; or is in fact the CAD 21 million sectoral provision against the CAD 50 portfolio actually adequate right now?

<A – Kevin Strain – Sun Life Financial, Inc.>: Darko, I'm going to say that, that question is really for Kevin Morrissey. So I'm going to let Kevin Morrissey start with the answer, and Randy and I may add some more details as he sort of works through that.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Hi, Darko. It's Kevin Morrissey. So, I'd say from a reserving perspective, a couple of things maybe to provide a bit of context to what we're doing. So, we are monitoring both the claims experience from COVID-19 and also the resulting economic strains that we're seeing as a result of the pandemic. And when we're setting our assumptions just based on a long-term time horizon, and it really is meant to be appropriate through the economic cycle. So, although we haven't seen anything significant in terms of actual experience so far in Q1 and in April it's been fairly modest, we do still see potential for a wide range of plausible outcomes from the pandemic. So, as the experience unfolds, we'll continue to reassess as we did in Q1. However, most of our assumption and management changes fall in Q3 and we do expect that to be the case of our review this year, but we'll have to monitor and see. At this point, we have reflected everything that Kevin has noted.

<Q – Darko Mihelic – RBC Capital Markets>: Okay. And so, that's just – so, I think we're talking about the same thing but we are talking about a sectoral provision against potential credit problems, right?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah, I think, Darko, Kevin was answering the broader question of all the assumptions but credit works the same way. We're reflecting – what we saw during the quarter, we reflect it inside of our reserves or inside of our impairments. And it was – you're right, it was a relatively small impact but COVID was two weeks in the quarter, right. A lot of the impacts will likely come, I think you're alluding to this, in the next several quarters depending on the path of the disease and the economy and the ability of government packages to spur the

economy and second waves. And there's a whole bunch of things that will be factored into the thinking, but what we're trying to reflect is what we actually saw happen and that's what was reflected at the end of Q1.

<Q – Darko Mihelic – RBC Capital Markets>: Okay. Okay. And just real quick follow-up, Kevin, you mentioned that there were very few downgrades again in April, sometimes rating agencies are little slow. And as I look at your presentation, you have a big chunk of oil and gas sitting at BBB, aviation, hotels. I'd imagine there is a good chance, if there is a lot of the stuff that's sitting in BBB, that will fall lower. Can you give me maybe an example using some sort of average duration concept here, like what happens if $100 million bucks of these exposures drops from BBB to below or non-investment grade status. What is the impact on earnings and capital? Can you give us, like, a general range?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yes. So, again, I think your question is more for Kevin on that, than for Randy. So, I'll pass that to Kevin.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Darko, it's Kevin Morrissey again. So, that's a really difficult question to answer and really because it has to do with the actuarial assumptions looking forward, right. So, as you mentioned, when the ratings change, we look at – reassess our expectations around future losses and that really has to do with, not just the size of the exposure as you mentioned, but also the asset class, the change in ratings, so where did you start, where did you land and the duration of the security. So, it's a combination of all those factors, so it's not kind of an easy formulaic thing that I could give you a simple answer to.

<Q – Darko Mihelic – RBC Capital Markets>: Okay. All right. Thanks very much.

Operator: Your next question comes from the line of Tom MacKinnon with BMO Capital.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Yeah, thanks very much. Good morning. I want to talk about e-signature capabilities. I think you'd mentioned that there were some regulatory issues, but you've got them onboard. I'm wondering where do you have them, where did you just get them on board and how do they vary between individual and group, and maybe just a little bit of color as to how they vary by geography as well. Thanks.

<A – Dean Connor – Sun Life Financial, Inc.>: Tom, it's Dean. Thanks for the question. Why don't we – why don't we start with Léo and then we'll go Jacques and Dan, and we could take you through the geographies in both the retail and group. So, Léo?

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah. Hi, Tom. It's Léo here. So, I can talk a little bit about Asia and I would actually broaden the topic a bit for Asia. For us, it's not just about e-signature capabilities, but it's also about whether the regulators have allowed us to conduct non-face-to-face sales. So, you've got markets where you can do an e-signature, but you need your advisor to witness the e-signature face-to-face. So, it's a little bit more complicated than just having e-signatures. So, with that said, basically, if I kind of go through different markets. In Hong Kong, we've got e-signature and currently what the regulators have allowed us to do is to conduct non-face-to-face transactions using these capabilities for a subset of products. So, you can use it for Par protection products, UL, but not yet for investment-linked products like VUL. So, there's still some constraints in the context of Hong Kong, but they've significantly loosened the parameters, so far.

If you go over to the Philippines, we currently can do digital signatures and the regulators are allowing non-face-to-face but only on a temporary basis. So, right now, they've authorized insurers to do this until June 30, I believe, or the extension of enhanced community quarantine, whichever comes last. Now, they're likely to extend that, as we learn from the situation. But that's the kind of a moving target.

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Then, you've got Malaysia, where e-signatures are authorized, but you need a physical copy of the document. And right now, the regulators have loosened the requirements for a temporary period of time. And it's not clear whether they're going to make that permanent or not.

And then, probably the most restrictive right now is Indonesia, where e-signature is allowed, but you need the process to be face-to-face for investment-linked products, which are a big chunk of the market. You can do non-face-to-face transactions for protection types of products, but it's a smaller chunk of the volume of sales of the industry.

And then, if I look at Vietnam, you can do both non-face-to-face and e-signature, both are authorized by regulators there.

Then, you've got China and India where also the electronic capabilities are more available. The regulators have basically authorized those processes. So, it really depends geography to geography. In terms of our own capabilities, basically we're currently geared up to take advantage of what the regulators have allowed across these different markets. And what we're currently working on is basically smoothing out the client experience and the advisor experience across each of these markets to make, for example, the automatic loading of data easier, the different stages of the process move more smoothly from one stage to the other and so on.

<A – Dean Connor – Sun Life Financial, Inc.>: Over to Jacques.

<A – Jacques Goulet – Sun Life Financial, Inc.>: Tom, Jacques here in Canada. As you know, in Canada, we've been on a strong digital journey for a while now and what this crisis has led to, in my view, is a much stronger focus on digital tools and capabilities on the part of advisors. Clients are worried, they want to engage and they want to talk to their advisors. This is certainly a time where the value of advice – the value of having a trusted person to help you navigate is very strong. So, we're using Zoom a lot to the point that Léo was making a non-face-to-face. Essentially, our advisors today can sit down with – over Zoom – with their client and then essentially go from, what I would call, A to Z, so identification of needs, doing a financial plan, all the way to completion and fulfilling of the products. So, it's very much in that vein and we're making very good use of it. And that's one of the reasons why we've continued to see relatively good sales through April.

<A – Dean Connor – Sun Life Financial, Inc.>: And it's worth adding that that capability has been in place for the past couple of years. And so, we've had a chance to road test it and integrate it with sales tools, e-signature and so on. So, that's allowed Canada to move quickly. Dan...

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: So, the group contracts – sorry to interrupt...

<A – Dean Connor – Sun Life Financial, Inc.>: That's all right.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: ...the group contracts and the individual contracts can all be signed through e-signature?

<A – Jacques Goulet – Sun Life Financial, Inc.>: Yeah. It's a good question. On group, I mean, we're certainly I think exchanging with clients electronically pieces of paper and then scanning and sending signatures. I don't think the contracts are the same, Tom. But we can get back to you on that.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. And is there anything in the US, is that – what about the employee benefit contracts, can they all be done e-signature?

FACTSET:callstreet corrected transcript

<A – Dan Fishbein – Sun Life Financial, Inc.>: Yeah, Tom, this is Dan, we actually had e-signatures already in place for a number of things and we expanded it pretty dramatically since we've gone to work from home. We use a third-party vendor that has very good capabilities for this, so that we can now accept e-signature for virtually anything, including contracts, claim submissions, really virtually anything at this point. And as Leo and Jacques said, we've also taken this as an opportunity to significantly expand other digital capabilities. In late March, we introduced a new set of digital online capabilities through our SunWorks claims system, that's for disability. We also have just introduced a full mobile platform for Maxwell, Maxwell already had a mobile site, but you could not do full enrollment soup to nuts, now you can. And we're going to be leveraging the Maxwell platform quite a bit for enrollment. In fact, we're getting a lot of interest in that. And we've also found, as Jacques mentioned, through Zoom that we can really do virtually anything that we were doing face-to-face. We've been doing finalist sales presentations. We've been doing enrollment meetings. We've been doing meetings with brokers, et cetera. So, I think we're well equipped to continue the business forward with all of these tools.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. Thanks for the color.

Operator: Your next question comes from the line of Mario Mendonca with TD Securities.

<Q – Mario Mendonca – TD Securities, Inc.>: Good afternoon. Kevin, maybe just real quickly here on the provision, yeah, the credit provision associated with asset impairment of CAD 2.7 billion, that's on a base of, I think, fixed income securities – fixed income investments of, call it, CAD 134 billion. So, first of all, are those the right numbers to be looking at, those are the comparable things, the CAD 2.7 billion is on the CAD 134 billion of bonds and mortgages and loans?

<A – Kevin Strain – Sun Life Financial, Inc.>: So, Mario, I think your question is again for Kevin Morrissey. So, I'll pass it to Kevin Morrissey.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Mario, yes, that's right. That is the right base for that number.

<Q – Mario Mendonca – TD Securities, Inc.>: And can you help me just think that through between best estimate and PfAD because I think of the PfAD as something you're going to have to leave there and best estimates that can be released as you did this quarter. Can you give me the breakdown between those two?

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Sure, I'll provide you a bit more detail on that. So, maybe just first of all some context on the CAD 2.7 billion, that includes the Par and non-Par business. And when you think about the split of that, you're right that there's a best estimate piece in the PfAD, and the best estimate is about 60% of that total and the PfAD is about 40%. What I would maybe advise a bit different from what you said is both the PfAD and the best estimate that unwind or release from the reserve quarterly, so that happens naturally. The best estimate portion goes against actual experience and that's reported in the credit line of our source of earnings, and unwind of the PfAD portion of that risk is also on a quarterly basis and that happens through the expected profit line in the source of earnings.

<Q – Mario Mendonca – TD Securities, Inc.>: So, that's a meaningful number, the 60% or even if you look at the totals, like – if you look at it in total, it's about 2% of the exposure, what does that really imply about annualized loss rates then on a best estimate basis?

<A – Kevin Morrissey – Sun Life Financial, Inc.>: So, when you think about it, as you look at the disclosure that we provided in terms of the credit release for the quarter, you could see that that was CAD 25 million the best estimate portion. So, that's a kind of after-tax number for the quarter. So, if you annualize that and convert it to pre-tax, it's about CAD 135 million per year.

<Q – Mario Mendonca – TD Securities, Inc.>: And that would be the annualized expected best estimate credit losses in that fixed income portfolio. So, I can just back that...

<A – Kevin Morrissey – Sun Life Financial, Inc.>: That's right. Yeah, so that's right. The only piece I'd add to that, Mario, is that is for the non-Par only, so that was related to the shareholder income, so that...

<Q – Mario Mendonca – TD Securities, Inc.>: Okay.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: ...CAD 135 million is the non-Par piece.

<Q – Mario Mendonca – TD Securities, Inc.>: Ok, I can do the math myself on that.

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. It's Kevin Strain. I might just point you to the – what you see is the experience coming through in any given quarter when it's different from that CAD 25 million. And if you remember Q1 of last year, we had that PG&E experience, right?

<Q – Mario Mendonca – TD Securities, Inc.>: Right.

<A – Kevin Strain – Sun Life Financial, Inc.>: And that came through – and so, the experience comes through in the quarter when it's in excess of the CAD 25 million release. And that's – you also see that this quarter with the downgrades of CAD 39 million and the impairment of CAD 1 million.

<Q – Mario Mendonca – TD Securities, Inc.>: Right. I'm just trying to get a sense of what is expected?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. And you can trend that over a long period of time and you would have seen that we've typically trended positive to that CAD 25 million which is probably what you would expect, right, because credit is one, it's idiosyncratic, but it also relates to – will go up in times of trouble and will be less when things are sort of more normalized.

<Q – Mario Mendonca – TD Securities, Inc.>: [indiscernible] (01:24:110).

<A – Kevin Strain – Sun Life Financial, Inc.>: And I think you also need to think about – yeah, you also need to think about our splits between how the private fixed income works versus the publics. And there's a lot of elements in the privates where we potentially have collateral and work out arrangements with the debtee and those types of things, right. So, it is more complicated than just the big number, you have to look at the pieces. And that's part of reason we try to give the sectoral information.

<Q – Mario Mendonca – TD Securities, Inc.>: Okay. So, now I got – I think I have a good understanding what's expected on the fixed income side. The equities are also very large and you can kind of back into the effect, it was about an 18% decline in the fair value of your equity portfolios. Are there any triggers that you would use that would necessarily require an impairment on the equities? Like, let's say, down 25% for an X amount of time X quarters, is there any sort of formulaic trigger that would necessitate an impairment on the equity?

<A – Kevin Strain – Sun Life Financial, Inc.>: I'm going to let Kevin jump in and answer it in more detail, but we've given you the sensitivity on the equities and inside of our reserves we're assuming an 8% return on the equity. So, are you getting at the return question or are you getting at sort of an impairment trigger?

<Q – Mario Mendonca – TD Securities, Inc.>: No, I'm just saying impairments – equities are down a bunch and I would have expected some impairments on your equities given how much equities were down in the quarter.

<A – Kevin Strain – Sun Life Financial, Inc.>: So, I'll let Kevin answer that, but the downturn in the equities is fully reflected, right.

<Q – Mario Mendonca – TD Securities, Inc.>: Not if it's offset by the liability, like if – what I'm saying is if the equities are down but the liabilities are also down, then there's no effect on your earnings.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Yeah, so Mario, it's Kevin Morrissey. So, the impact on the equities does come through. So, we do see that full amount coming through and reflected in earnings in the quarter. When you mentioned a trigger point, so I'd say that there's kind of two pieces, there's the accounting side and an actuarial reserve side. And in the accounting side, there are triggers around reflecting impairments on surplus assets that are hold – that are held AFS. So, you can have those triggered. On the actuarial reserving side, now as I mentioned earlier, the way we look at that is really a long-term kind of through the cycle assumption. And so, we would expect to see volatility and gains and losses and we wouldn't normally kind of reset that long-term expectation, we must – there was a fundamental change in our forward-looking assumptions.

<Q – Mario Mendonca – TD Securities, Inc.>: Okay, I'll follow up. Thank you.

<A – Kevin Strain – Sun Life Financial, Inc.>: Okay. And I just wanted to point out that we're closing in on 11:30. So, we're going to make this the last question on the call, but we will be available after the call, if people have further questions.

Operator: Your next question comes from the line of Scott Chan with Canaccord Genuity.

<Q – Scott Chan – Canaccord Genuity Corp.>: Thanks for fitting me in, I'll just keep it to one question. Mike, just going back to MFS, and if I look at the gross sales quarterly trajectory over the last several quarters, it's increased nicely. And in Q1, you had almost CAD 50 billion, I think was up 65% year-over-year in constant currency. What was the main driver of that? Was it like a big mandate or were there certain products that are – that helps facilitate that big year-over-year gain?

<A – Mike Roberge – Sun Life Financial, Inc.>: Yeah. Good morning, Scott. Thanks for the question. We've seen – as I said earlier, one of the things that we're seeing particularly in the retail channel is the firms that we do business with continue to pare down their provider lists. And so, firms going to fewer funds, fewer providers and what we've seen is we're a net beneficiary almost every time that we see that happen. And so, if you look at the calendar year last year, I think we did something like, if you look at US products, USD 1 billion of sales in 16 different products in gross sales. So, the diversity of our sales has just been incredible. And so, we're seeing flows in the US and US equity categories across the capital spectrum. We're seeing it in non-US equity categories. We're seeing it in fixed income categories, and that is suggestive of firms that are putting multiple products on their shelves. And so, we benefited over the last year and a half, we see it accelerating in this environment to the concentration of the businesses and fewer managers and we continue to see that in our business.

<Q – Scott Chan – Canaccord Genuity Corp.>: Okay. That's helpful, Mike. Thanks a lot.

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Okay. I guess that ends our call. It is just close to 11:30. So, I would like to thank all our participants today. And if there are any additional questions, as Kevin said, we will be available after the call. Should you wish to listen to the rebroadcast, it will be available on our website later this afternoon. Thank you and have a good day.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

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