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Sun Life Financial, Inc. (SLF)

Q4 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen, my name is Andrew and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q4 2019 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a guestion-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, Andrew and good morning, everyone. Welcome to Sun Life Financial's earnings conference call for the fourth quarter of 2019. 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 fourth 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 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 the use of forward-looking statements and non-IFRS financial measures, which form part of today's remarks. As noted in the slides, forward-looking statements may be rendered inaccurate by subsequent events.

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

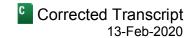
Dean A. Connor

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

Thanks, Leigh and good morning, everyone. Turning to slide 4, we made good progress in the quarter. The company reported underlying net income of CAD 792 million up 10% over the fourth quarter of 2018. We generated an underlying return on equity of 15% in Q4 while continuing to deploy capital in a disciplined way with the announcement of the InfraRed Capital transaction and a new 15 year bancassurance distribution arrangement in Vietnam. In the fourth quarter, we grew wealth sales by 24% over the prior year, insurance sales grew 7% over the prior year, including particular strength in Asia where we grew sales by 43% on a constant currency basis with double digit growth in six of our seven local markets. The value of new business or VNB grew by 9% reflecting higher sales, partially offset by changes in sales mix, pricing and the impact of lower interest rates.

On a full year basis, underlying net income exceeded the CAD 3 billion mark for the first time and underlying earnings per share grew 6%. Excluding the onetime impact of interest on par seed capital in Q1 of 2018, underlying EPS grew by 10% in 2019. For the full year, we achieved an underlying return on equity of 14.3% and returned over CAD 1.8 billion of capital to shareholders through a combination of dividends and share repurchases. There were a number of notable achievements in the fourth quarter as highlighted on slide 4. I will touch on some of these as I take just a few minutes to step back and reflect on the progress we made in 2019,

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moving Sun Life closer to our ambition of being one of the best insurance and asset management companies globally.

Moving to slide 5, our client for life strategy puts clients at the center of everything we do. This is evident to our culture. One that is client obsessed, driving towards a purpose of helping clients achieve lifetime financial security and living healthier lives. In the first quarter of 2019, we reached a milestone of CAD 1 trillion in assets under management, demonstrating our scale and global presence in key markets. It took us 147 years to reach the first CAD 500 billion of AUM and just seven years to add the next CAD 500 billion. In 2019 AUM grew to CAD 1.1 trillion, benefiting from strong market growth, the closing of an acquisition and growth across our businesses. This includes businesses like Sun Life Global Investments, our Canadian retail wealth manager that we started from scratch in 2010. SLGI now has CAD 29 billion of AUM up 27% last year and it delivered net sales of CAD 2.9 billion, strong investment performance for clients and a solid and nicely growing contribution to net income. In SLC management, our third party alternative investment business, AUM grew to nearly CAD 84 billion in 2019 including approximately CAD 13 billion in real estate assets acquired through the closing of BentallGreenOak on July 1st.

In the fourth quarter of 2019, we announced our intention to acquire a majority stake in InfraRed Capital Partners and as a reminder, InfraRed is a global infrastructure equity manager headquartered in London with approximately CAD 16 billion of AUM. InfraRed has built a sterling reputation in infrastructure investing including renewable energy such as wind and solar, social infrastructure including schools and hospitals, as well as transportation. This acquisition will help accelerate the growth of SLC management while providing InfraRed access to our North American distribution capabilities including now over a 1,000 institutional clients who have growing demand for sustainable investing strategies Including InfraRed, SLC management should reach a CAD 100 billion of AUM in 2020 just six years after we launch the business.

MFS ended the year with US 527 billion in AUM, a growth of 23% for the year. This reflects outstanding investment performance, higher capital markets, positive net retail sales now over the past four quarters and momentum in our strategic build out of institutional fixed income and non-US retail solutions for our clients.

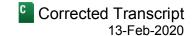
MFS' investment performance continues to shine with 93%, 93% and 98% of MFS' US retail mutual fund assets ranked in the top half of their Lipper categories for 10-, 5- and 3-year performance respectively. On a full year basis, underlying net income in our asset management pillar grew 9% driven by growth in fee income on higher average net assets.

Throughout 2019, we continued to invest to further our digital, data and analytics capabilities, allowing us to drive efficiencies, as well as create innovative ways to interact with and delight our clients. In Canada through our top rated client app, my Sun Life, we created a digital platform that provides a single point of contact for a wide range of health resources including our provider search feature. To date, our users have logged over 10 million ratings of their healthcare providers and now by opening up the platform to all Canadians via Lumino Health, we're averaging 10,000 searches a day which allows Canadians to find the healthcare they need, when they need it and where they need it.

And our digital coach Ella delivered nearly 12 million friendly digital nudges last year, driving an additional CAD 650 million in insurance coverage for our clients and an additional CAD 410 million of wealth deposits.

In the US, we've largely completed the integration of the AEB acquisition including the full achievement of the CAD 100 million expense synergy target. We also rolled out our Sun Life + Maxwell Health benefits platform and

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by the end of 2019 we had enrolled over 10,000 families on this new platform, which provides a modern, intuitive education and enrollment experience for our plan members.

In Asia, we completed the roll out of client mobile apps across all seven of our local markets, allowing clients to interact with us in more convenient ways. This includes examples like 24 hours claims payment, turnaround times in Hong Kong, or SunSmart, our digital point of sale tool which increases the productivity of advisors and in most markets now where it takes only 15 minutes to complete a policy application.

We also continue to experiment with strategic partners including telcos like U Mobile in Malaysia, Insurtech startups like Bowtie Life Insurance in Hong Kong and digital marketplaces like Lazada in the Philippines. These partnerships are allowing us to expand distribution across the region and interact with clients in ways that are convenient for them. We entered this new decade with good momentum and we have a lot to look forward to. Kevin Strain will speak to how we performed against the medium-term financial objectives that we set back in 2015. The team has executed well, resulting in a five-year total shareholder return that averages 11.2% per annum, ranking us in the top quartile among 20 global competitors.

We're pleased with the overall results in 2019 and we start 2020 from a position of strength, our LICAT ratio of 143% of SLF Inc., low leverage and CAD 2.3 billion of cash at the holding company provide us the flexibility to deploy capital in a disciplined manner.

Regarding the new coronavirus, COVID-19, we feel for the many people whose lives have been touched by and in some cases lost to, this new virus. Employees and advisers in Sun Life Hong Kong and Sun Life Everbright in China are following prescribed regimes that include working from home, daily reporting on health and essentially no business travel.

In January, we announced a number of changes for clients who are diagnosed with COVID-19 to make it easier for them to access care, to extend the grace period for premium payments, to accelerate claims payment and so on. We did not see a material impact in Hong Kong and China sales in January, but looking forward, we expect to see some slower sales and modestly higher claims. And the bigger question is the slowdown in economic growth in China and for the global economy and in particular how long that lasts.

Standing back, we feel that Sun Life is well positioned to play both a strong offense and a strong defense. Our diversified and balanced business model with four strong pillars, client obsession, strong talent and culture, technology positioning, along with our strong capital and risk posture, provide a great opportunity for Sun Life to serve the secular drivers of demand for future growth and to deliver on our purpose.

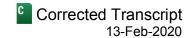
I'd like to acknowledge that Léo Grépin, appointed President of Sun Life Financial Asia, January 1, is with us on the call today for his first quarterly earnings call and, with that, I will now turn the call over to Kevin Strain, who will take us through the fourth guarter financial results.

Kevin D. Strain

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

Thanks, Dean, and good morning, everyone. Turning to slide 7, we take a look at the financial results from the fourth quarter of 2019. We finished 2019 with strong reported and underlying net income. Underlying net income for the quarter was CAD 792 million, translating to underlying earnings per share of CAD 1.34, up 13% from the fourth quarter of 2018.

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Underlying return on equity of 15% was above our medium-term objective of 12% to 14%. Reported net income of CAD 719 million was up 24% on stronger underlying earnings and favorable market-related impact compared to the prior year, partially offset by higher MFS share-based awards driven by growth at MFS during the year and the restructuring charge taken in the Corporate segment relating to expense-saving initiatives in the fourth quarter.

Our underlying net income in the fourth quarter was driven by business growth across all pillars, higher tax benefits in Corporate, favorable credit experience and higher investing activity gains. This was partially offset by unfavorable morbidity experience in Canada, and unfavorable expense experience in Corporate mostly from higher incentive compensation costs.

Book value per share remained relatively flat year-over-year as growth in book value from earnings was offset by dividends, currency translation, and accumulated other comprehensive income, and equity reduction related to the close of our acquisition of a majority stake in BentallGreenOak in the third quarter.

We continue to maintain a strong capital position with a LICAT ratio of 143% for Sun Life Financial Inc. and 130% for Sun Life Assurance Company of Canada. The 3% change at SLF from the third quarter was driven by the redemption of the Sun Life ExchangEable Capital Securities as well as interest rate movements.

For our LICAT sensitivities, interest rates moved back up in the quarter, and as a result, our sensitivities have reverted back to what we've seen in the past, where the LICAT ratio will decrease with rising interest rates and increase with declining interest rates. The sensitivity of LICAT to a scenario shift remains, and falling interest rates could again move us closer to a scenario switch, like the one you saw in our sensitivities last quarter.

At the end of fourth quarter, our cash position at the holding company was CAD 2.3 billion and the financial leverage was 21.2% which remains below our long-term target of 25%. Assets under management grew to CAD 1.1 trillion, up 16% from Q4 2018 on strong growth in our Asset Management and insurance businesses.

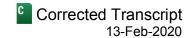
Slide 8 provides details of underlying and reported net income by business group for the quarter. In Canada, underlying net income of CAD 264 million was up 8% from the prior year, reflecting business growth, higher investing activity and AFS gains. This was partially offset by unfavorable morbidity in our Group Benefits business.

In the US, underlying net income increased 13% to CAD 137 million with favorable morbidity experience and higher AFS gains, partially offset by unfavorable mortality experience in our In-force Management block. The after-tax profit margin for Group Benefits was 7.3% on a trailing 12-month basis compared to 6.7% in the prior year. US business-in-force grew 7% from Q4 2018, driven by 17% growth in our stop-loss business.

Our Asset Management businesses delivered underlying net income of CAD 281 million, an increase of 24% compared to the prior year, driven by higher average net assets at MFS and the addition of income from BentallGreenOak acquisition, which closed in July of 2019. The pre-tax net operating profit margin for MFS was 40%, consistent with Q3 and slightly higher than the prior year. On a standalone basis, underlying net income at MFS increased 20% from the prior year, while SLC Management underlying net income more than doubled.

In Asia, underlying net income grew 2% year-over-year as strong business growth and expected profit and lower new business strain were offset by unfavorable experience in our China joint venture and other investment-related experience.

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Slide 9 provides detail on our sources of earnings presentation. Expected profit of CAD 849 million increased 14% from CAD 744 million in Q4 last year led by 14% growth in Asia and 11% growth in Canada. If you exclude the impact of currency and the results of the Asset Management businesses, expected profit grew 7% over the prior year.

We had new business gains this quarter of CAD 22 million compared to gains of CAD 17 million in the same period last year, with the year-over-year improvements coming from lower acquisition expense gap on higher sales in Asia. Experience losses CAD 18 million pre-tax for the quarter were predominantly caused by the unfavorable morbidity in Canada and unfavorable expense experience in Corporate, resulting from higher incentive compensation costs driven by the increase in our stock price and higher project costs.

Partially offsetting these impacts were higher investing activity, favorable credit experience, as well as both favorable net market impacts. Assumption changes and management actions were minus CAD 16 million pre-tax this quarter. Other in our sources of earnings which totaled a loss of CAD 180 million – CAD 108 million included the higher fair value adjustments of MFS' share-based payment awards.

Other also includes acquisition, integration and restructuring costs, and the impact of certain hedges in Canada that do not qualify for hedge accounting. Earnings on surplus of CAD 115 million were largely in-line with the fourth quarter of last year as higher AFS gains were offset by real estate market losses and a mortgage impairment. Our effective tax rate on underlying net income for the quarter was 13.9%, below our expected range of 15% to 20%, mainly due to investment income on tax-exempt assets.

Slide 10 shows sales results across our insurance and wealth businesses. Total company insurance sales were CAD 1.4 billion in the fourth quarter, up 7% from the prior year. Canada insurance sales were up 4% driven by higher individual life insurance sales. Insurance sales in Asia continued to show strong momentum in Q4, up 43% on a constant currency basis compared to the same period last year.

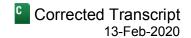
We saw strong growth in all local insurance markets as well as in International. Hong Kong achieved its highest level of insurance sales for the second quarter in a row, driven by strong agency and brokerage sales and the popularity of our new tax deferred products. Fourth quarter sales in our US Group Benefits business were down 4% year-over-year due to lower large case employee benefits sales. However, full-year sales exceeded \$1 billion, which represents the highest sales year in our US Group Benefits business.

Total company wealth sales were CAD 45 billion in the fourth quarter, up 24% from the prior year. In Canada, wealth sales increased 21%, driven by increased mutual fund sales in Individual Wealth as well as large case sales in our Group Retirement Services business, which grew by 19%. This includes CAD 1.5 billion in fourth quarter Defined Benefit Solutions sales as clients continue to turn to us for solutions to de-risk their pension plans.

Across MFS and SLC Management, sales increased 25% on a constant currency basis. Total gross sales at MFS grew by 22% benefiting from strong growth in the US retail side, which experienced net inflows for the fourth quarter in a row. Overall, MFS experienced outflows of \$1.2 billion in the quarter, a significant improvement reflecting those strong retail net flows.

At SLC Management, we continue to see net inflows as gross sales increased by 82% over the prior year. In Asia, wealth sales were up 8% on a constant currency basis. This was driven by higher money market sales in the Philippines and growth in our Hong Kong pensions business, largely offset by lower mutual fund sales in India. Value of New Business, VNB, grew 9% to CAD 337 million. Growth from sales in insurance and wealth was partially offset by mixed pricing and current interest rate environment.

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Slide 11 provides a view on operating expenses. For the full year, operating expenses were up 8% on a constant currency basis. Controllable expenses growth in 2019 was 3.6% and reflects our investments in growth. We're determined to continue to manage our expenses closely and push so that expenses grow slower than the rate of earning and expense allowable growth. To support this, we took several steps to reduce expenses in the Corporate segment in Q4, resulting in a restructuring charge of CAD 30 million, CAD 33 million pre-tax, which we believe will result in expense savings of roughly the same amount starting in 2020. We will continue to find ways to reduce costs, while delivering on our client strategy and investing in the future.

Turning to slide 12, we show the 2019 full-year progress against our medium-term financial objectives, as well as a five-year view. Underlying EPS grew 6% in 2019. Adjusting for the interest on the transfer of par seed capital, included in 2018 underlying earnings, underlying EPS grew 10% year-over-year. On a five-year basis, underlying EPS has grown at a rate of 12% per annum, above our growth objective of 8% to 10%.

Underlying ROE was 14.3% in 2019 and averaged 13.2% over the past five years. The dividend payout ratio has remained inside our target range. Dividends grew 10% last year and 8% per annum over the past five years. This consistent return of cash to shareholders through our dividend is driven by strong earnings growth and cash flow from our businesses. We are pleased with these results and are heading into 2020 from a position of capital strength.

We continue to be committed to achieving our medium-term financial objectives; our client strategy has been the center of our success with all four pillars growing in 2019. Throughout the year we deployed capital for organic investments, including investments made in advancing our digital capabilities, as Dean mentioned earlier. We also completed the acquisition of BentallGreenOak, entered into several strategic partnerships, including a new bancassurance arrangement in Vietnam, and returned 60% of our underlying net income to shareholders in the form of dividends and the share buyback.

At the end of 2019, we had CAD 2.3 billion in cash at the holding company and the low financial leverage ratio, providing us significant capital deployment flexibility as we start a new decade with opportunity and strength.

With that, I'll turn the call to Leigh to being 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 help ensure that all our participants have an opportunity to ask questions on today's call, I would ask each of you to please limit your questions to one, maximum two, and then to re-queue with any additional questions.

With that, I will now ask Andrew to please poll the participants for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And your first question comes from the line of David Motemaden from Evercore. Pardon me. David, please check your mute button.

Leigh Chalmers

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

Andrew, can we move on to the next question?

Operator: Certainly. Our next question comes from the line of Humphrey Lee with Dowling & Partners.

Humphrey Hung Fai Lee

Analyst, Dowling & Partners Securities LLC

Good morning and thank you for taking my questions. My first question is related to the unfavorable mortality in the US this quarter. I was just wondering if maybe Dan can provide some color in terms of what he saw in the quarter. What is the frequency/severity of [ph] this is (00:23:23)?

Daniel Richard Fishbein

President-Sun Life Financial U.S., Sun Life Financial, Inc.

Yes. Thanks, Humphrey, and good morning, this is Dan Fishbein. Yes, we did see some unfavorable mortality in the In-force Management or Individual Life business. And our study of that shows that much of that was due to a relatively small number of large claims. We think we will see this kind of volatility from time to time in this block. There are some larger policies in the block. We also increasingly have some claims that are not subject to reinsurance. So, there was, what we would view, likely volatility in the quarter.

Humphrey Hung Fai Lee

Analyst, Dowling & Partners Securities LLC

Was that, as a backdrop, I guess – so I think in the past, Kevin has mentioned that because the cash flow from this block of business is very attractive. So, you like having – keeping it. But since then, like I think there is a lot of transactions in the US Life Insurance marketplace and some of the multiples seems to be pretty attractive too. Have those transactions changed how you think about this block kind of going forward?

Dean A. Connor

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

Humphrey, it's Dean Connor. Thank you for your question. When it comes to our closed block businesses, we – our primary focus is to optimize them for – do a great job for the clients, but optimize them for capital and tax and operating efficiencies and so on, and reinsurance, all of the moving parts. We obviously keep an eye on transactions in the market that come and go. But our job one is to really run these businesses extremely well and optimize them for the benefit of all the stakeholders.

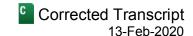
Humphrey Hung Fai Lee

Analyst, Dowling & Partners Securities LLC

Got it. Thank you.



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Operator: Thank you. And your next question comes from the line of Meny Grauman with Cormark Securities.

Meny Grauman

Analyst, Cormark Securities, Inc.

Hi. Good morning. Just a question about the unfavorable JV experience in Asia, if you could talk to that a little bit more, and specifically talk about your expectations going forward?

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Hi. Good morning. Meny, it's Léo here. Let me take the first part of your question around the unfavorable joint venture experience. As you know, we've got joint venture arrangements in China, India and Malaysia. The reference that I think you are referring to in the MD&A relates to our China joint venture, where we've had some small one-time items, where it's about a penny per share in aggregates.

And then on your broader question of going forward and the results, when you take out some of the small one-time items we had in the quarter, our income growth would have been in the low-teens. So, we still feel very good about our ability to achieve our medium-term target.

Meny Grauman

Analyst, Cormark Securities, Inc.

Can you give a little more detail in terms of what are the - what's the nature of those one-time items?

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Yeah. So it's really a number of small item normal variances that you would see quarter-over-quarter. They were just all pointed in the same direction this quarter. As an example, last quarter, we had a mortality gain, a small mortality gain. This quarter, we had a small mortality loss. They were small on both sides, but that's an example. We had a slightly higher lapse loss this last quarter. So just a few small items like that that just happened to point in the same direction.

Meny Grauman

Analyst, Cormark Securities, Inc.

Okay, thanks for that.

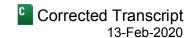
Operator: Thank you. And our next question comes from the line of Gabriel Dechaine with National Bank Financial.

Gabriel Dechaine

Analyst, National Bank Financial

Good morning. Dean, first question for you. You've talked about the coronavirus impact on your business and said it could impact sales going forward and claims. I get the sales but maybe you can flush out the claims commentary where you'd expect that to show up and then I'll throw in my group question in Canada. Morbidity was negative again, in Canada that is, Jacques, could you give me a timeline for when you expect the re-pricing initiative, which is underway, to start translating into margin improvement and elimination of this issue?

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Dean A. Connor

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

Gabe, it's Dean. Thank you for your questions. Léo, why don't you start with the COVID-19 question on claims?

Léo M. Grépin
President-Sun Life Asia, Sun Life Financial, Inc.

Yeah. Thank you, Gabriel, it's Léo here. So, on COVID-19 and potential impact on claims, first I would say, it's too early to tell. It's really going to depend on the scale of the epidemic. From a claims standpoint, a lot of the expenses that are flowing through the system in the economies in Asia are getting captured by the public system. If you look at Hong Kong, China, the patients are getting sent to public hospitals. So, you don't expect significant impact on health insurance claims there. Obviously, if things deteriorate rapidly, you could see mortality claims increase in a material way, but I think it's just much too early to tell where this is going to end up.

Cabriel Deshains	
Gabriel Dechaine Analyst, National Bank Financial	Q
So that's precautionary commentary I guess?	
Léo M. Grépin President-Sun Life Asia, Sun Life Financial, Inc.	А
That's right.	
Gabriel Dechaine	O
Analyst, National Bank Financial Okay.	
Dean A. Connor	А
President, Chief Executive Officer & Director, Sun Life Financial, Inc. And Jacques, you want to comment on the morbidity in Canada?	*
Jacques Goulet	А
Yes. Hi, Gabriel. Thanks for your question. So right, the higher incidence continues. It's Group Benefits as you're pointing out. And as I said last time, we have started, in fact, I We'll be basically 100% done by the end of Q1 this year. Now, the renewal cycles of the hits at different times, so most of our book tends to renew January 1, so we're getting Q July 1. So when you look at it, Gabriel, I would say, roughly 60% this year and 100% by we are.	oricing action last year. ese clients is such that it uite a bit. There is some
Gabriel Dechaine Analyst, National Bank Financial	

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Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Thanks. Good morning. First question is for Léo and it's about your joint venture in the – or sorry, your distribution agreement in the Philippines. Looking at your sales numbers, Philippines has been one of the stronger geographies for individual life sales for the company in Asia over the last couple of years. I don't know if there's any economics you provided on the new relationship you have here and more specifically with growth already trending well, where exactly does this distribution agreement benefit the company in terms of sales going forward?

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Hi. Good morning, Sumit. It's Léo here. When you're referring to our new relationship, I think you're referring to Vietnam.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

Sorry, did I say? I said Philippines. Yeah, Vietnam. Vietnam. Sorry about that.

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Yeah, yeah. Yeah, okay. Thank you. So, yes, we signed the new partnership deal – banca partnership deal in Vietnam, mid-last year with TPBank. As you know, from a strategy standpoint, distribution excellence is the core pillar of our strategy in Asia and we have been driving diversified strategy with strong growth and quality improvement in agency, bancassurance and in brokerage. So across our markets, we're driving for expansion on all fronts.

In the case of Vietnam, this was one of our few markets where we did not have a banca partnership in place and we were very excited to team up with TPBank. TPBank is one of the fastest growing banks in Vietnam. It's also very well-aligned with our strategy in that they are very client focused, very digitally oriented. And so, we see that as a very positive step for us in that market and we expect it to be a meaningful contributor to our sales in Vietnam.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

And I think you answered some of it there for me, as I didn't – I wasn't sure if you had anything outside of the agency channel in Vietnam, so this is your first entry into bancassurance in that country?

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

That's right.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

And second question, final question, is for Dean. Dean, we spoke last quarter about the company's philosophy around share repurchases and you've made mention about the intrinsic value that management considers. Coincidence or not, you have not been active on repurchases for the first time in a while. I know, there were a lot

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of things going on, let's call it, off the field with the InfraRed acquisition and some debt redemptions, maybe other considerations. In thinking about capital allocation in 2020, are share repurchases something that are intrinsic value based still makes sense right now or are there other factors that you think in terms of organic growth that take a higher priority as you think about the coming year?

Dean A. Connor

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

Sumit, it's Dean. Thank you for your question. I'd first remind investors that our priorities for capital allocation are first and foremost to fund organic growth, that includes seed capital for investment strategies, but driving organic growth. And then, second of all acquisitions, the acquisitions that are aligned to our strategy and meet our hurdles. And thirdly, share buybacks. On buybacks, there are a number of factors that we do take into consideration, including our capital position, our excess cash, the M&A pipeline as we look forward and expected returns on buybacks versus alternative uses of capital and valuation and so on, so the number of things that we consider at any point in time. So, we have done buybacks in the past. Obviously, we expect to do them in the future. We don't comment on any particular quarter's buyback activities. So I won't answer your question perhaps as directly as you'd like, but I would just say it continues to be a very important part of our stable of levers to allocate capital and you'll just need to stay tuned as we go forward.

Sumit Malhotra

Analyst, Scotiabank Global Banking and Markets

I got to get you to share your intrinsic value model with me. I need to maybe bake that into my own considerations. Thanks for your time.

Dean A. Connor

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

Thanks.

Operator: Thank you. And our next question comes from the line of Doug Young with Desjardins Capital.

Doug Young

Analyst, Desjardins Capital Markets

Hi. Good morning. Just maybe following on the capital question, Dean or Kevin, I think in the past you've talked about Sun Life's ability to generate excess capital in and around CAD 800 million per year, and that's after dividends and funding organic growth. Has that changed at all?

Kevin D. Strain

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

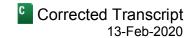
Hi, Doug. It's Kevin. Our view on that is still the same. We're generating between CAD 800 million plus or minus each year and the idea would be to maintain our capital flexibility and to look at it that way. So, the CAD 800 million per year continues to be roughly the additional capital we're generating.

Doug Young

Analyst, Desjardins Capital Markets

And I think along the same line as the previous question, I mean, I think you've kind of signaled maybe CAD 200 million of buybacks per quarter, but and I know it's not going to be even, but it doesn't sound like that's necessarily going to be ongoing or consistent, is that fair to kind of read that into?

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Kevin D. Strain

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

I think Dean addressed that well, right, it's going to depend on a number of factors, what we see on the M&A front, what we're having to do, Dean mentioned seed capital, what we see in terms of organic growth. So there's a bunch of factors that go into our decision each quarter, whether we do the buyback, including intrinsic value. But, we're not going to comment on which one of the factors is driving us not to buy any particular quarter, right, like there's a lot of sensitive information inside of that on the M&A front and those types of things. So, we're very disciplined. We look at it every quarter. If we're not buying, it could be any one of those factors from organic growth to M&A to other things.

Doug Young

Analyst, Desjardins Capital Markets

Okay. And just second, I mean, Dan, the integration of the Assurant group business is done. The earnings growth has been strong and you've got an end to that margin range in which you targeted. So, maybe I can phrase it this way, what's next? I mean, is there room to push that margin target higher in the US group insurance business, because it feels like some of your peers out there are targeting higher margins and I know the stop-loss seems to be maybe above the target but there seems to be opportunity on the group employee benefits side, so just hoping to get some color?

Daniel Richard Fishbein

President-Sun Life Financial U.S., Sun Life Financial, Inc.

Yeah, thanks Doug. As you know, we're – as you noted, we're above the target that we said at Investor Day of 7% or higher and we seem to – we're staying above that target. Of course, there is a composition of businesses there. There's our stop-loss business, which is – and especially in the past two years has performed actually above our pricing targets and there is some reversion back to the pricing targets that's happening and inevitably will happen. But at the same time, as you noted, we're continuing to improve the margins in our core group business that's the Life, disability, dental and voluntary.

So, we're seeing some shift in the mix there. The margins have been coming up in the group business and there's still more opportunity for that margin to come up. A big part of our opportunity is also growth. We've had significant growth, 17%, for example, in business-in-force year-over-year and the stop-loss business and as we put the integration in the group business in the rearview mirror, which, and any conversion process obviously dampens your growth and can lead to some additional lapses. With that now in the past, we think that we should start to see some good growth in the group businesses as well.

There's also significant growth opportunity from what we refer to as closing the coverage gap, tools like Maxwell and others that we're employing to encourage people to enroll for the right amounts of coverage and to have the employer partners we work with offer more of our products. And then, finally, in our Fullscope business, we have nice growth happening there and we are launching new lines of business, for example, in the quarter, we introduced our stop-loss offerings to health plans, our first partnership around voluntary products and we expect that to add to our growth going forward.

Doug Young

Analyst, Desjardins Capital Markets

Thank you.



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Operator: Thank you. And your next question comes from the line of Tom MacKinnon with BMO Capital.

Tom MacKinnon

Analyst, BMO Capital Markets (Canada)

Yeah. Thanks very much. A couple of questions. Just to start off with respect to Asia, we seen nice growth in expected profit, we seen strain coming down. You talk about whittling away the expense gap here, but was this an exceptionally strong quarter or do you think you've got things in motion here to be able to sort of continue at a 15% kind of underlying earnings growth rate for Asia? Have you built sufficient scale to be able to do that, do we have to have – what kind of sales growth momentum do we need in order to be able to kind of hit that targeted 15% growth rate for that segment?

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Yeah. Hi, Tom, Léo here. So yes, you're right to highlight that we had a good quarter in terms of expected profit growth and reduction in new business strain, a 14% improvement in expected profit quarter-over-quarter, our new business strain, reduced by about CAD 7 million, so taken together that's about 25% growth year-over-year. So a good quarter in that respect, and so as a result, that gives us some good confidence that the 15% underlying earnings growth year-over-year is something that we're quite confident in delivering.

Tom MacKinnon

Analyst, BMO Capital Markets (Canada)

Okay. Thanks. And then, a follow-up just with respect to the CAD 800 million in free capital annual generation. I assume this – in that guide, you have some measure of organic growth, because obviously if you didn't want to grow organically, then that number would probably be bigger. So what kind of level of organic growth is embedded in that CAD 800 million, is that you're 8% to 10% underlying earnings growth guidance? Is that embedded in terms of organic growth in that CAD 800 million?

Kevin D. Strain

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

You're right, Tom. The CAD 800 million does include the organic growth. The organic growth you're talking about is capital growth, so not just EPS growth. So, it would be slightly different than that, but we – it's based on our plans and how we see the business growing.

Tom MacKinnon

Analyst, BMO Capital Markets (Canada)

Right. So if you assume your underlying earnings are going to grow in the 8% to 10% range, you could still see CAD 800 million in free capital generated annually?

Kevin D. Strain

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

Yeah.

Tom MacKinnon

Analyst, BMO Capital Markets (Canada)

Okay.

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Corrected Transcript 13-Feb-2020

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

That's correct. That's embedded into those numbers.

Tom MacKinnon Analyst, BMO Capital Markets (Canada)

It's just when you talked about using that money to fund organic growth, that would be - I assume that would be above and beyond the 8% to 10%, you're trying to get at that?

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

Yeah, yeah. That's correct.

Tom MacKinnon Analyst, BMO Capital Markets (Canada)

Okay. And then finally, the taxes were lower, more tax exempt, helping the quarter. Is that tailwind going to continue or how should we be or should we be thinking about moving towards the lower end of your 15% to 20% guide or how should we be thinking that?

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

It's – we benefit from a balanced business model across a number of geographies right and that's what supports our effective tax rate of the 15% to 20%. And when you think of where we are any given quarter it depends on where the income is coming from and what that looks like. So, I'd say we still feel like 15% to 20% is the right range. But what happens in any given quarter depends on where the income is coming from and drives us sort of up and down in that range.

Tom MacKinnon

Analyst, BMO Capital Markets (Canada)

Analyst, BMO Capital Markets (Canada)

Okay. And if I could just squeeze the last quick one here, the CAD 30 million of restructuring charge, I think you said it was going to translate, that's pre-tax, going to translate into CAD 30 million pre-tax expense starting towards the end of 2020, which segment would these...

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

Right. The expense saves will start in 2020 and, by 2021, we'd expect to be at the full level. But it's roughly in that

neighborhood of – the charges CAD 33 million pre-tax, the savings would be roughly in the neighborhood of CAD 33 million.

Tom MacKinnon

And what segments will we get those savings in?

Kevin D. Strain

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

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The majority of what we did this quarter was in the Corporate segment. So, that's the majority of where the restructure charges were.

Tom MacKinnon

Analyst, BMO Capital Markets (Canada)

Great. Thanks.

Operator: Thank you. And your next question comes from the line of Paul Holden with CIBC.

Paul Holden

Analyst, CIBC World Markets, Inc.

Thank you. Good morning. Two questions from me. One is going back to Asia, maybe getting a little more specific on the improvement in new sales strain, you mentioned that that came from improved scale. Is there certain geographies where this scale improved driving that change and it sounds like you assume that will or you expect that will be sustainable, so maybe talk about the reasons why that improvement scale should be sustainable as well?

Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Yeah. Hi, Paul. It's Léo here. So, you're right to highlight, we're improving our new business strain as you've seen, we're driving some good growth across the region really, across all of our markets on the back of a strong focus on distribution in both scale and quality. And we've also got some strong products in the market, a good product mix. We feel good about the profitability of these products. As you know, Asia is a highly underpenetrated market when it comes to insurance. And so, it's really a distribution game. It's not a pricing game in Asia. So, we feel good about the profitability of the products and so, as the scale continues to come through, we're expecting to see this benefit of scale flowing through in our new business strain.

In terms of where it's coming from, as you can imagine, our bigger markets are Hong Kong and Philippines. They're both profitable markets. And as we continue to build scale there in particularly, you would expect some of the benefits to come from there in particular.

Paul Holden

Analyst, CIBC World Markets, Inc.

Second question is follow-up on potential capital optimization. I think both Dean and Kevin mentioned potential M&A and M&A pipeline, so I would appreciate any thoughts there. I think the commentary in the past was certainly your willingness to do deals is there, but for certain larger deals pricing was a challenge in terms of financial hurdles. So wondering if there's any update there and then just generally how robust do you think the potential pipeline looks?

Dean A. Connor

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

Paul, it's Dean here. Thank you for your question. I'll just take you back to the way we think about M&A, we've talked about this before. There are a number of areas and opportunities we see. The first is, can we assume a larger share of the joint ventures we're already in, you've seen us act on that in the past in India, in Vietnam and Indonesia. So as we look forward, that's one set of conversations. And then, there are lots of conversations going on at any point in time around things that will strengthen all four pillars, so new capabilities. So think of GreenOak

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and InfraRed as squarely in that category. New growth opportunities, so think of the acquisition of the Malaysia business as in that category or in some cases combinations of capability and growth. So think of the AEB acquisition as driving both new capabilities and growth.

So we keep looking at a pipeline of opportunities that are on strategy, we ask ourselves what do we bring beyond a checkbook to this business, what does it bring to us, why is the combination, why is this business better off in our hands, how do we grow faster together and obviously it has to clear our economic hurdles. So, it's a pretty disciplined framework for evaluating acquisitions. I think, we've been successful at identifying opportunities and then executing on them and bringing them in and achieving our targets and they've added a lot of value to the business and to the growth potential for the company. So it's difficult to talk about any, obviously, we don't talk about any particular specific opportunities at any point in time or about things that have come and gone in the past, but I'll just kind of a general answer to your question around how do we think about it. I would just say, we continue to be actively engaged in a robust pipeline of opportunities that fit the kind of criteria I just described.

Paul Holden

Analyst, CIBC World Markets, Inc.

All right. Thank you.

Operator: Thank you. And our next question comes from the line of Nigel D'Souza with Veritas Investment Research.

Nigel D'Souza

Analyst, Veritas Investment Research Corp.

Good morning. Thank you. I actually had a follow-up question on the tax item this quarter. So you pointed out investment income from tax exempt assets and I was wondering if you could provide more color on what those underlying assets represent in terms of equity or fixed income and how we should think about that going forward. So if market conditions continue to be favorable or strong, do you expect that benefit to continue and vice versa, if we see a softening of market conditions does that benefit go away?

Kevin D. Strain

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

We've had these assets invested in this, the tax exempt sort of basis for a number of years now and it really depends on investment returns sort of quarter by quarter and we had strong investment returns this quarter, which is the primary thing that drove us below our range. So I won't say, I can't predict what the investment income is going to be in those assets sort of going forward. But to the extent, we do have strong investment income, you'll see a lower tax rate related to that and that's what happened during the quarter.

Nigel D'Souza

Analyst, Veritas Investment Research Corp.

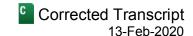
Okay. And then last question related to taxes. In the last quarter, you also had the resolution of two favorable – favorable resolution of two tax related items. I believe you've highlighted an expectation for CAD 0.03 benefit from those items, so did that have any benefit this quarter and do you expect those items from last quarter to continue to benefit your effective tax rate going forward?

Kevin D. Strain

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



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Yeah, Nigel. That's correct. We did have that and we experienced the quarter benefit that we expected to experience and you would see that going forward as well, but that's included in our 15% to 20% target.

Nigel D'Souza

Analyst, Veritas Investment Research Corp.

Okay. That's very helpful. Thank you.

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

Scott Chan

Analyst, Canaccord Genuity Corp.

Good morning. Dean, just going back to your comment on the robust pipeline on the M&A side, does that involve potential opportunities with SLGI because that's one of the asset management entities that kind of have lacked scale I guess in terms of assets but it's also growing a lot faster than your more scalable businesses. Just kind of thoughts there, I know you did an Excel acquisition in the past, but I just kind of curious your thoughts on that platform?

Dean A. Connor

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

Scott, thank you for your question. It's Dean. Yeah. First of all I'd say we're really pleased with SLGI. It's – starting a business from scratch is one of the hardest things to do in business. And the team has done a – I think just a terrific job building this business up to CAD 30 billion of AUM. And as I said, one and we talked about this over the years, but it's – it is making a profit, it's making a nice profit. And of course as you know in – once you kind of pass through that zero number and start earning a profit, there's good leverage there. So we're really pleased with the progress. I have said before, we have said before that if there was some way to add more scale to SLGI through M&A that could be of interest to us. As you know the reality is the market is already quite concentrated in Canada, not a lot of opportunities in that category.

And just as a reminder, SLGI is a solutions oriented business. It's got alpha generation capabilities to tactical asset allocation and other means, the majority of the platform is a sub-advised platform. So then when you go and say that is the model that we've got. And you think about acquisition opportunities, it's not a big set. So we see a lot of opportunity to grow SLGI organically. That's our first priority. I think we've made great progress and it feels like we've just begun – we've just begun to really hit some momentum here. And the best is yet to come.

Scott Chan

Analyst, Canaccord Genuity Corp.

Great and just a small question on Asia. Does Sun Life have any offices in Wuhan or Hubei?

Dean A. Connor

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

Léo, do you want to take that one.

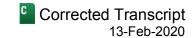
Léo M. Grépin

President-Sun Life Asia, Sun Life Financial, Inc.

Yeah. Hi, Scott. Léo here. So in our China business, Sun Life Everbright, we have a branch in Wuhan.



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Scott Chan

Analyst, Canaccord Genuity Corp.

Okay. That's it. Okay. Thank you very much.

Operator: Thank you. And your next question comes from the line of Humphrey Lee with Dowling & Partners.

Humphrey Hung Fai Lee

Analyst, Dowling & Partners Securities LLC

Thank you for taking my follow-up question. Just along the topic of M&A, I know you Dean, you talked about you're not going to comment on anything specific. But looking back at kind of SLCM, you've done a couple of transactions there, gradually kind of building up your product suite. If you were to look at kind of Sun Life Capital again, like if you look at the overall products suites that you have there, is there any capabilities or kind of solutions that you would like to add to that platform?

Dean A. Connor

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

Humphrey, thanks for your question. Steve Peacher is going to take it.

Stephen Clarkson Peacher

President-Sun Life Investment Management, Sun Life Financial, Inc.

Humphrey. Thank you for the question, its Steve. One of the areas that we are very strong in and have done very well in, in terms of building a third party business is private fixed income on the investment grade side, its particularly strong — it's a strength for the company, it's worked well for the balance sheet over the years and we've, as a result, attracted a lot of investment interest from third-party institutional clients. We don't have a large capability below — in the below investment grade private credit space, which is obviously of increasing interest to institutional investors around the world. And that is an area of interest we've mentioned that, I've mentioned that in before publicly along with infrastructure equity, we couldn't be more excited about the InfraRed acquisition, which fills that bucket. And so, if there was kind of one area that I would be interested in, it would be the area in private credit below the investment grade line.

Humphrey Hung Fai Lee

Analyst, Dowling & Partners Securities LLC

Got it. Thank you for the color.

Operator: Thank you. We have no further questions at this time. I will now turn things to Ms. Chalmers for closing remarks.

Leigh Chalmers

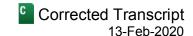
Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.

Thank you. And I would like to thank all of our participants today. And if there are any additional questions, 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: Ladies and gentlemen, this concludes today's conference call. Thank you for participating and you may now disconnect.



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