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PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Adam, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q1 2021 Financial Results Conference Call. (Operator Instructions)

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

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

Thank you, Adam, and good morning, everyone. Welcome to Sun Life's earnings call for the first quarter of 2021. Our earnings release and the slides for today's call are available on the Investor Relations section of our website at sunlife.com. We will begin today's presentation with an overview of the first quarter results by Dean Connor, Chief Executive Officer of Sun Life. Following Dean's remarks, Manjit Singh, Executive Vice President and Chief Financial Officer, will present the financial results for the quarter. After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management will also be available to answer your questions this morning.

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

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

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Thanks, Yaniv, and good morning, everyone. Let me start by saying, we are thinking about our friends, colleagues, clients and their families in India as the country faces this most extraordinary wave of infections. While our India employees have been working from home since the start of the pandemic, we know that this has been a very difficult time for all of them. We're working with our local teams and health officials to provide additional care and support for our people. We made a donation to India Red Cross and supporting local charities to help vulnerable people with some of the basics, such as groceries. More broadly, while we're not on the other side of this pandemic yet, there is every reason to be optimistic as the rollout of vaccines builds momentum around the world.

Turning to Slide 4. Reported net income of CAD $937 million for the first quarter was up significantly over the prior year on favorable market-related impacts. Underlying net income grew by 10% to CAD $850 million and underlying earnings per share grew 11% over the first quarter of last year. We generated a strong underlying return on equity of 15.3% in the quarter. Our capital and cash positions continue to remain healthy, and along with a low financial leverage ratio of 22.7% provide flexibility and opportunities for capital deployment.

I want to step back for a moment on the quarter's results and talk about something that has been a long-time priority for Sun Life, and that is sustainability. Our approach to sustainability focuses on what we know best: financial security, healthier lives and sustainable investing; and we're embedding that into our business. For example, in February, we announced the creation of 34 affordable housing units as part of a new 300-plus unit apartment building we're finishing in the Regent Park neighborhood of Toronto in partnership with Daniels Group and The City of Toronto. These 34 apartments will be leased at roughly half the going market rents through a program that helps homeless or inadequately housed single mothers to achieve lasting economic self-sufficiency. And if you own one of our Sun Life participating whole life policies, you'll be glad to know that your par fund owns a significant share of this new building.

In March, we set a goal of making an additional CAD $20 billion in new sustainable investments over the next 5 years across our general account and third-party investments, and that's in addition to the CAD $60 billion of existing sustainable investments. And starting this year, business operations around the world for Sun Life and MFS will be carbon neutral. You'll be hearing more from us on how Sun Life is making a difference on sustainability for our clients, our employees, our communities and future generations.

Coming back to the quarter's financial results, wealth sales and asset management gross flows were up 10%, driven by strong gross sales at SLC Management and higher wealth sales in Asia over the first quarter last year. We ended the quarter with CAD $1.3 trillion in assets under management, up 26% over prior year. MFS continued to deliver strong long-term investment performance with 97%, 84% and 95% of MFS' U.S. retail mutual fund assets ranked in the top half of their Morningstar categories based on 10-, 5- and 3-year performance, respectively. Individual insurance sales grew 12% over prior year, with 27% growth in Canada and 12% growth in Asia on a constant currency basis. Total insurance sales were down 6% compared to last year as our group business in Canada continued to see fewer large cases coming to the market during the pandemic.

In April, we announced our intention to acquire PinnacleCare, a leading U.S. health care navigation and medical intelligence provider, which will become part of our U.S. stop-loss and health business. This acquisition, which we expect to close later this year, changes stop-loss and health from a business that reimburses employers after an employee's care has occurred to one that gets us involved through PinnacleCare right from initial diagnosis. This should lead to better health outcomes and better cost management, including lower stop-loss claims for our clients. These new capabilities are exactly in line with our purpose of helping clients live healthier lives.

Turning to Slide 5. We continue on the journey of accelerating everything digital, driven by our purpose and powered with an unrelenting focus on clients, and this quarter was no exception. In Canada, our digital coach, Ella continues to connect with our clients, helping them save for their future and ensure protection for their loved ones. We're making it easier for clients to do business with us, holding over 61,000 virtual adviser-client calls in the first quarter, a big jump compared to the 5,000 we held in Q1 of last year. This quarter, we used e-signatures in Canada for over 85,000 transactions, and that compares to 14,000 in the same period last year.

In April, we launched Stitch in select U.S. states. Stitch is an innovative, supplemental health offering, enabling members to buy coverage directly from Sun Life online through their worksite benefits program at any time. This is an important offering as it allows members to take their insurance with them even if they leave the company and will also protect part-time and gig workers who typically are not eligible for employee benefits. We've also made great progress in Asia, where 66% of new insurance applications were submitted via an electronic application, an increase of 14 percentage points over the fourth quarter of 2020.

We also introduced new digital, personal accident and cancer products in collaboration with one of our bancassurance partners in Vietnam to help our clients when they need us the most. These digital products offer a seamless experience to purchase coverage entirely online and receive policies in just minutes via straight-through-processing. In the Philippines, we launched a premier digital on-demand wellness platform to help clients focus on their health. The platform, which is called GoWell Studio, offers a variety of features, including virtual exercise programs, guided meditation and health care awareness content.

So Sun Life is off to a strong start in 2021, with double-digit earnings growth, a strong ROE and a strong balance sheet with ample flexibility. As we look ahead, we are well-positioned to benefit from an expanding U.S. economy, the growth in Asia driven by its compelling demographics and strong momentum in Sun Life Canada. Asset management, as you know, is a large part of our business, and we're well-positioned in MFS, SLC Management and our other managers as clients seek positive alpha in this lower-return world. And our insurance businesses are well-positioned to do more for clients whose awareness of and need for protection has been reinforced by this pandemic.

I'm now pleased to introduce our new CFO, Manjit Singh, who joined Sun Life in March. Manjit brings a wealth of knowledge, including 20 years of experience at one of Canada's largest financial institutions. We're thrilled to have Manjit onboard, and he'll take us through the first quarter results. Kevin Strain is also here today and will be available with us for the Q&A portion of our call this morning.

And now I will turn things over to Manjit.

Manjit Singh - *Sun Life - Executive VP & CFO of Sun Life*

Good morning, and thank you, Dean. I'm thrilled to join the Sun Life team. This is a global organization with a rich history and a proven track record of strong performance. I've spent the first 5 weeks of my time at Sun Life, meeting colleagues across all of our businesses and support functions. It's clear to me that Sun Life has a special culture, a culture where employees, advisers and partners work together to deliver for all of our stakeholders, especially our clients. I look forward to contributing to Sun Life's future success.

Now let's turn to Slide 7 for an update on our first quarter results. Amidst the ongoing challenges from the global pandemic, Sun Life delivered reported net income of CAD $937 million, reflecting growth in underlying net income and a favourable impact from equity markets and rising interest rates. This was partially offset by fair value adjustments on MFS share-based awards, reflecting strong earnings and AUM growth. We also recorded a CAD $57 million restructuring charge related to our workspace strategy, which will generate pretax savings of approximately CAD $20 million per year. Underlying net income for the quarter was CAD $850 million, an increase of 10% compared to the prior year, driven by business growth as well as favourable morbidity and credit experience. This was partially offset by lower-investing activity gains compared to elevated gains in the first quarter last year as well as a CAD $31 million unfavourable currency impact.

Underlying earnings per share for the quarter were CAD $1.45, an increase of 11% from the prior year with underlying ROE of 15.3%. Assets under management at the end of the first quarter exceeded CAD $1.3 trillion, reflecting market appreciation during the quarter, net inflows at SLC Management and the acquisition of Crescent Capital. Book value per share declined modestly from last quarter, reflecting declines in AFS unrealized gains, foreign currency translation from a stronger Canadian dollar and the impact of the Crescent acquisition, offset by growth in reported net income.

Our capital continues to be strong with LICAT ratios of 141% at SLF and 124% at SLA. The decline in the SLF ratio from the prior quarter relates -- reflects the Crescent Capital acquisition, funding for the ACB bancassurance agreement arrangement, redemption of subordinated debt and the impact of rising interest rates. The funding of the ACB bancassurance agreement and rising interest rates also impacted SLA's LICAT ratio. Our financial leverage at the end of the first quarter was 22.7%. This remains below our long-term target of 25%, and coupled with CAD $2.3 billion of excess cash at the holding company provides us with significant financial flexibility.

Slide 8 outlines the performance for each of the business groups. Canada's reported net income of CAD $405 million increased CAD $447 million over the prior year, predominantly driven by favourable equity markets. While rising interest rates were also favourable, this was largely offset by tighter credit spreads. Underlying net income increased by CAD $29 million, driven by business growth and favourable credit and mortality experience, partially offset by lower investing gains. U.S. reported net income of CAD $211 million, increased CAD $47 million compared to the prior year, primarily driven by lower ACMA charges and favourable market-related impacts. Underlying net income increased CAD $10 million, reflecting favourable morbidity experience in stop-loss and long-term disability. This was partially offset by lower-investing gains, lower earnings on surplus and unfavorable mortality experience.

Asset management reported net income of CAD $230 million, a decline of CAD $9 million compared to the first quarter last year as fair value adjustments for MFS share-based awards were largely offset by an increase in underlying net income. MFS underlying net income of CAD $291 million was up CAD $49 million, driven by AUM growth. MFS ended the quarter with a pretax net operating profit margin of 39%. SLC Management's underlying income was in line with the prior year. The contributions from InfraRed and Crescent were offset by timing of compensation expenses and lower real estate fund catch-up fees. As discussed at the Investor Day in March, SLC Management has good fundamentals with significant amounts of capital that will be invested and become fee generating.

In Asia, reported net income of CAD $198 million increased by CAD $98 million from the prior year as the business benefited from favourable market impacts. Underlying net income increased CAD $4 million, driven by a 24% growth in expected profit and new business gains, offset by unfavourable mortality experience.

Corporate had a net loss of CAD $107 million, a CAD $37 million increase from the prior year, primarily due to the CAD $57 million real estate restructuring charge. The underlying net loss in Corporate was CAD $56 million, a CAD $12 million increase from the prior year. The increase reflects higher spend in corporate initiatives and an increase in the value of share-based incentive compensation, partially offset by a higher contribution from the UK business.

Slide 9 outlines the sources of earnings. Expected profit grew 10%, driven by good results in asset management as well as business growth and higher fee-based income in Canada and Asia. Excluding the impact of currency and Asset Management, expected profit grew 6% over the prior year. Effective this quarter, we reflected a methodology change to include new business income for the U.S. Group Benefits business and expected profit. This is consistent with the treatment for the Group Benefits business in Canada. Going forward, we do not expect to see new business gains in our U.S. sources of earnings. This change has been reflected for prior periods.

Total new business gains increased by CAD $21 million over the prior year, reflecting pricing actions in the Canadian individual insurance business and higher sales in Asia. Experience gains of CAD $425 million were largely driven by market-related impacts on rising interest rates and equity markets. We also benefited from investing gains, favourable morbidity in the U.S. and positive net credit experience. This was partially offset by expense experience as well as unfavourable mortality experience in the U.S. and Asia. Earnings on surplus declined CAD $8 million year-over-year, reflecting the impact of lower yields.

Slide 10 outlines insurance and wealth sales for the first quarter. Individual insurance sales were up 12%, while group sales were down 24% compared to the prior year. The increase in individual insurance sales was driven by a 27% increase in sales in Canada, primarily from strong par sales. In Asia, Vietnam posted strong sales growth driven by our new bancassurance partnerships. India, China and Malaysia also saw strong sales growth with the Philippines and Indonesia down on COVID-related lockdowns. Sales in the International Hubs business were also impacted by the lockdowns and travel restrictions. The year-over-year decline in group sales was primarily attributable to fewer large case sales coming to market in the Canadian Group Benefits business.

U.S. Group sales were relatively flat year-over-year, as the higher sales and employee benefits were offset by lower stop-loss sales.

Wealth sales, excluding Asset Management, were down 3% from the prior year. Wealth sales in Canada decreased 21%, primarily driven by a large retained case in Group Retirement Solutions in Q1 of 2020. Mutual fund sales and sales of guaranteed investment products both increased. Asia wealth sales were up 48%, excluding the impact of foreign exchange, driven by mutual fund sales in India, the pension business in Hong Kong and money market sales in the Philippines. Asset Management gross flows of CAD $58.2 billion were up 12%, driven by higher flows at SLC Management. Value of new business increased 10% compared to Q1 of 2020, reflecting strong sales and higher-margin VNB products across both insurance and wealth.

Turning to Slide 11. Operating expenses were up 20% from the prior year. 12 percentage points of the year-over-year increase was driven by fair value adjustments related to share-based incentive compensation at MFS and Sun Life, the run rate impact of newly acquired businesses in SLC Management and the real estate restructuring charge, partially offset by favourable currency impacts. Higher controllable expenses and contractual volumes contributed to the remaining 8 percentage points of the year-over-year increase. The Asset Management business accounted for just under 2/3 of that growth primarily driven by expenses related to strong AUM growth. And the remaining increase of approximately 3% relates to business growth and organic growth initiatives, including our continued investments in digital.

Overall, this quarter's results highlight the strength of Sun Life's 4-pillar strategy. It was a good start to the year. We remain focused on continuing to invest in our businesses to drive future growth while maintaining expense discipline.

Now I will hand it back to Yaniv to begin the Q&A portion of the call.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And your first question comes from the line of John Aiken of Barclays.

John Aiken - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Given the current situation in India, I know this is reasonably early days relative to what's happening, but are you able to extrapolate any impact on the businesses that you have in the region?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Leo, do you want to take that?

Leo Grepin - *Sun Life - President of Sun Life Asia*

Yes. Good morning John, thanks for the question. As you mentioned, the situation is very early days right now in the second wave in India. And the situation is evolving quickly. At this point in time, I'd have to say our focus is really on the safety of employees, partners and clients. And we haven't -- I think it's too early to tell what the medium-term impact is going to be of what's currently happening over there. What I would say is that we are benefiting from the capabilities we have in India in terms of digitally enabling our employees as well as digitally enabling advisers. And so operations are fully functional, and we're continuing to see sales flow through. But I think it's just too early to have an indication on whether there will be a material impact.

John Aiken - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

Understood. Thanks Leo. And for my second question, given the fact that you guys took a restructuring charge to rationalize your real estate footprint, does this have any implications for the real estate holdings that you have within your broader portfolio?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Steve, why don't you take that?

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

Thanks for the question. It's on everyone's mind, what's the impact on commercial office space, vacancies, valuations. And so we get this question a lot. I think that -- and we have real estate, of course, on our own balance sheet, and we manage big portfolios of real estate for our third-party clients. I think our answer is generally that, a), it's still evolving. We actually are seeing in many of our properties, more of a return to the office than we might have expected. However, we're certainly going to see in some instances, like with ourselves at Sun Life, that people are going to reduce their office space.

We really think it's going to be property and city-specific. So there will be certain cities like in Asia, Tokyo, for instance, where we don't think there'll be any impact at all. Some cities like New York may have a bigger impact, less so in a city like Boston. Certain properties may be more impacted than others. So overall, I think, certainly, we're going to see a decline in occupancy for some period across commercial office space broadly, but the impact will be very specific by property and city. Overall, I think our properties are well-positioned. We've got strong properties in good markets, and so we're not too worried about the overall impact on our -- the specific properties that we own.

Operator

And your next question comes from the line of Meny Grauman with Scotiabank.

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

Hi. Good morning. So it's been a year since COVID hit basically. I'm wondering if you have a better sense of the ultimate impact of the pandemic on insurance experience specifically. If you go across your segments, we're seeing morbidity move one way, mortality experience move another way, but I'm wondering on a net basis, as you look at the entire enterprise on a net basis, kind of what is winning out and what do you think is the ultimate -- what is going to be the ultimate impact of COVID on those insurance experience risks?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Meny, it's Dean. Thanks for your question. I'm going to ask Kevin Morrissey to answer that. But I think I'll just start at the top of the house and say that one of the reasons our earnings haven't been tremendously impacted by COVID is this balanced and diversified business model, where, yes, we have elevated claims on life insurance, offset somewhat by reduced claims in morbidity -- in certain areas of morbidity and offset by annuities. And so that balanced diversified business model has really served us well, but I'll turn it over to Kevin to take it to the next step.

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

Thanks Dean, and thanks, Meny, for that question. So starting with mortality. As Dean mentioned, we really benefited from the geographic as well as product diversification. So overall, we haven't seen a big impact, as you would have noticed to our financial statements where we've had some gains and losses over the quarters. On the morbidity side, largely, we've been taking gains as you would have witnessed, especially last year with a decrease in utilization. However, that is normalizing across many of the products. And I would say that we'll have to see what happens longer term in terms of long-term disability and potential longer-term impacts related to the COVID disease as well.

On the lapse side, we have experienced a bit of an uptick in the lapse losses. Since the start of the pandemic, what we've seen is policyholders seem to be holding on to their policies longer, which is a good thing for the clients and is a testament to the value to clients in this challenging time during the pandemic. So we have seen somewhat higher losses from lapses. But at this point, it's not clear what will happen, whether the policyholder behaviour will revert back at the end of the pandemic. So all in all, I'd say we've had quite good success in terms of our balanced and diversified business. So we haven't had big impacts, as you will have witnessed. Longer term, we're continuing to monitor the trends and the longer-term impact. As you will have also noted, we have not made any updates to our longer-term actuarial assumptions and, I think, it's just really too early at this point to make that call, but we are continuing to monitor that closely.

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

Thanks for that. And just as a follow-up, I mean, that's what I'm trying to get at, whether what you've seen so far kind of is indicative of what we're likely to see once this all wraps up? Or is there something to be conscious of potential unanswered questions or risks in terms of how this issue plays out towards the tail end of COVID and maybe beyond?

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

Tough question to answer, Meny. I would say there are certainly a lot of unknowns still ahead of us. We've got room for optimism as the vaccines are being rolled out. But with the new variants of the disease, it does still raise a lot of questions, both on the insurance side and then more broadly on the economic side. So I'd say that we just -- we don't know at this point. I think that what we do know is, we got a really good risk profile position. We're comfortable with that, and how we manage our risk and our overall profile. And so we are optimistic about the future, and we'll have to wait to see how that will unfold ultimately.

Operator

And your next question comes from the line of David Motemaden with Evercore.

David Motemaden - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

Hi. Good morning. I guess I just had a question in Asia. And I'm wondering if you could help me maybe think about just looking at expected profit on in-force, how much of that is driven by wealth-related sort of fee-related earnings versus insurance earnings? And I also, I guess, maybe if you could just comment, Leo, just great to see the wealth sales up 48% year-over-year on a constant currency basis. Also wondering maybe if you could talk about net flows after thinking about withdrawals?

Leo Grepin - *Sun Life - President of Sun Life Asia*

Yes. Thanks, David. It's Leo here. So on the first part of your question and the source of the gains in expected profit, so we have seen some good improvement over time. It's primarily driven by business growth on the insurance side and higher fee-based income on both the life and the wealth side of our business. I can't give you precise numbers. But the core of our business in Asia still remains primarily insurance driven, say about 80%

insurance driven, roughly speaking, with 20% being more pure wealth type of business. Now what's important to note is that a good chunk of our core insurance products are being used as savings vehicles. So while they're insurance chassis, some of that would be purchased by our clients for savings purposes.

So that's on your first question. On your second question around net flows across our business, I don't have those exact numbers off the top of my head, David. We'll have to come back to you on this one.

David Motemaden - *Evercore ISI Institutional Equities, Research Division - Research Analyst*

Okay. That's helpful. And then maybe if I could just switch gears and add one in for Dan on the U.S. business. Good to see a continued year-over-year growth in the employee benefits in-force premium again this quarter. I'm wondering if you could just talk about and maybe quantify what you're seeing in underlying covered lives, if that's still a headwind from an exposure standpoint? And how we should be thinking about that over the course of the rest of the year? If employment does improve, would you expect to see a meaningful increase just from exposure growth in covered lives?

Dan Fishbein - *Sun Life - President of Sun Life - United States*

Good morning David, it's Dan. Thank you for the question. We're really seeing a pretty rapid recovery in employment in the U.S. So I think we had mentioned in the last call that we estimated about a 3% reduction in covered lives at the bottom, but that's largely come back. As we look at our January 1 enrollment, it's a little hard to parse out all the different factors in terms of number of employees versus number of people who enroll, but generally enrollment was higher in January than it had been in the prior January. So the economy in covered lives seems to be snapping back rather quickly and really never went down that much in the first place.

Operator

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

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

Good morning. The expenses at MFS, can you give a bit more -- I mean, that's where there's some variation versus what I was expecting there this quarter, if there's anything specific that you can flag? Then sticking to this group more cross-border commentary here, and you talked about the benefits utilization outlook. Is that comment more U.S. skewed? We could see the employment accelerating there. Canada is largely in lockdown, which might have a more lagged impact on benefits utilization. I'm just trying to get a sense for how long some of these morbidity gains can persist?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

It's Dean, Gabriel. Thanks for your questions. Why don't we start with Mike on the expenses at MFS. And then we go to Dan on and then Jacques on the group benefit morbidity trends.

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

Good morning Gabriel, it's Mike. Yes, on expenses, there's nothing -- nothing to call out on expenses. The expenses that are up year-over-year, those that are tied to profitability or asset-based fees that we pay distributors. If you look year-over-year on discretionary expenditures, they're relatively flat. So there's nothing really to call out there.

Dan Fishbein - *Sun Life - President of Sun Life - United States*

And this is Dan. On the Group Benefits morbidity in the U.S., we saw a very favourable experience in the first quarter in our stop-loss business. Now some of that relates to just how prior periods are completing. One comment that I would make within there is, we've noticed lower cancer diagnoses in our stop-loss business. So we do have a little bit of concern that there's delayed diagnosis because of people not seeking care throughout the pandemic, but overall stop-loss continues to be quite favourable. In our long-term disability business, we had a favourable quarter as well for morbidity. That was largely based on resolutions, which suggests that there are jobs for people to go back to kind of consistent with the question I have answered a moment ago. And overall, our morbidity was favourable in the first quarter.

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

Gabriel, this is Jacques. I can go next. So your question was specifically on benefit utilization. It's pretty well back to normal. We did have, as you know, a favourable experience in quarter 1, 2020, that was driven in large part by the second half of March closure, but we're pretty well back to normal. The morbidity issues in Canada this quarter is more to do with our disability business. And one of the -- you might recall because I talked about this before, we're watching very closely incidence as well as recoveries. Incidence are in line with what we're seeing in recoveries, and this is, in my view COVID-related, is a lack of access to care, which means that it makes it longer for people to get back to work. So that's really what's the main driver of our morbidity experience this time around.

Operator

And your next question comes from the line of Tom MacKinnon, BMO Capital.

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

Thanks very much. Good morning. A couple of things. With respect to Asia, if I look at the impact of new business, it was modestly negative, but if I look at it compared to the fourth quarter, it's a big improvement despite the fact that sales in the first quarter of this year are actually lower than they were in the fourth quarter. So was that mix related? And how sustainable is that? And then on the investment gain, there is a CAD $74 million, I think you used to talk about CAD $30 million to CAD $35 million a quarter. So why was it outsized? Are we still looking at something like CAD $30 million to CAD $35 million going forward? And then finally, you have an other expense hit of CAD $33 million in the quarter, and I think that's related to kind of special projects. But every company has special projects, so why aren't they just like part of your expected profit? And what is the outlook for those things going forward?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Well, Tom, that's -- those 3 questions. We'll start with Leo. And then on the investment gain, go over to Randy. And your question on expenses, I think which is third one, we'll go to Kevin Morrissey. So Leo, why don't you start?

Leo Grepin - *Sun Life - President of Sun Life Asia*

Yes, good morning Tom, thanks for the question on new business gain. Let me touch it from a few different facets. If you look at the results in Q1, we did have lower new business gains year-over-year, which we're quite happy about. You mentioned a shift in business mix. That is one factor that we're seeing. But I'd call out a few others. We did see strong sales across the region with double-digit growth in 4 of our markets that have good new business gains. And I know that it's lower quarter-over-quarter, but higher year-over-year. There is a mix impact here in terms of the type of products that we are selling this quarter. So that explains the difference in terms of lower sales, but similar quarter-over-quarter new business gain.

The other things that are happening is, we are seeing some stronger sales as you know in Vietnam from our new bancassurance partnerships, and so that is contributing to the results. And then we've also seen improvements in our expense gap driven by the work we've been doing on expense discipline, managing our expenses as well as improvements in our product designs. And so all of those things, it's -- yes, it's the product mix, but it's a number of management actions that we've been taking during the pandemic and even before that are really contributing to all of this, investment in distribution excellence, improvements in our expense structure, digitization of our business to improve client experience. All of these things are contributing to the improvement in new business gains.

Dean Connor - *Sun Life - CEO & Director of Sun Life*

And then, Randy, why don't you talk about investing gains. And I think part of the question was also the guidance around that, and Manjit will cover off that part of it. But Randy, over to you.

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

Okay. Good. Tom, thank you for the question. This is Randy. So we had strong activity gains in the quarter, really driven by strong sourcing in private fixed income. So we were able to source some attractive deals that were negotiated, and so that's really what drove those activity gains. And you do see lumpiness in that number quarter-to-quarter, but they were high-quality gains this quarter.

Dean Connor - *Sun Life - CEO & Director of Sun Life*

And let me turn it over to Manjit in terms of guidance.

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

Was it a -- okay, sorry.

Manjit Singh - *Sun Life - Executive VP & CFO of Sun Life*

Sorry, Tom, did you have another follow up?

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

No, I was just -- were you going to talk about the guidance with respect to...

Manjit Singh - *Sun Life - Executive VP & CFO of Sun Life*

Yes. Good morning. It's Manjit. So I agree with Randy's comments that these will bump around quarter-to-quarter just given the market environment. The previous guidance, we've sort of given you sort of CAD $15 million to CAD $30 million pretax, and we think we're -- over a cycle, that's still an appropriate amount.

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

Okay. Great. And then the last one on the other expense?

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

Yes. Tom, this is Kevin. Thanks for that question. So the minus CAD $33 million this quarter, it was on the high side. You asked about this -- was that driven by special projects. The answer is really, no. It really wasn't driven by special projects, although special projects are a component within that line of the source of earnings. You also asked about why is it not in expected profit. I wanted to highlight that we do have special projects, and we do have project costs that are included in the expected profit line. Not all of them, though. And so the distinction that we make is really kind of the longer-term nature of them. So if projects or costs are going to be longer-term, more sustained, but we do include that in expected profit. Some of the shorter-term projects like the IFRS 17, which are kind of kicking in this year and they will be declining significantly going forward. Those are in the other expense line.

So the driver this quarter, we have a lot -- it's tough to point to one thing, frankly, because we do have -- it could be a dozen or more small things, and they are all small in each business group and there's pluses and minuses. But one of the things I'll highlight this quarter is that the accounting recognition by quarter can be different than anticipated -- what's anticipated in the actual liabilities for some sources; for example, premiums and commissions this quarter. So there was a bit of a mismatch in timing on the premiums and commission side. So it did create some quarterly volatility, but that will even out over the course of the year. And I do also just want to remind you that the minus CAD $15 million guidance that I referred to in the past is really a longer-term average. And you should expect -- should not expect to see an even quarterly trend and that will bump up and down as we have seen over the last little while. Over the last 4 quarters, in fact, the average has been minus CAD $7. So it's actually been below that run rate, but it will be up and down quarter-to-quarter.

Operator

And your next question comes from the line of Paul Holden of CIBC.

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

Thank you and good morning. I'll just ask one question. I want to ask about Sun Life participation in the pension risk transfer business, given the recent transaction with GM Canada. So 2 questions on this front. One is, can you give us a better sense of risk appetite in this business and probably set from the context of I think the GM business was the first one where you have kind of spread around the risk. So are there more -- is there more willingness to do that, bringing in multiple partners? And then two, I mean, how do you kind of view that market opportunity over the next 12, 24 months? We are hearing anecdotal evidence that there should be an increased amount of activity in the near term. So I'll leave it there with those 2 questions.

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

Dean, do you want me to start? This is Jacques.

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Yes. Yes, please, Jacques.

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

Thank you, Dean, and thank you, Paul, for your questions. Maybe I'll start by just to make sure there's no confusion. I'll start by pointing out that while the press release on GM came out in the first quarter, this is really a deal that we did in Q3 last year, Paul. And there's a timing in terms of sometimes where the -- when we put the thing on the book and when we make the announcement. So that's the first point. In terms of the risk appetite and the market opportunity, I think you will remember, we view Defined Benefit Solutions very much as one of our growth engines in

Canada. We think this is a very healthy market. There are 2 other similar markets in the world, that's the U.S. and the U.K., and they're much more mature and developed. So we think that's a market that has a lot of runway ahead of it.

There are situations where clients will spread, as you say. And the GM one, as you saw, we got the bulk of it, but they did give some slice of it to other insurers. We've been the leader in that business, Paul, for basically 8 or 9 years now. We have, in my view, I am probably bias, but the strongest team in the industry on this. So one of the things that does for us is, we tend to basically have a look at pretty well every deal that comes to market, and it allows us to be selective on which ones we're more interested in and which ones we might be less. So overall, this is -- this very much remains one of our growth engines. We think the market is going to continue to grow. Many defined benefit plans are on, what we call, de-risking glide-path. And the last step, as you know, on a path like this, is to do an amortization. So we think we're very well-positioned, and that's a very, very healthy market for us.

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

Okay. So just so I understand with that GM deal, in particular, if you had the option, you might have taken 100% of it, but it really is GM's option to share the risk among a number of players?

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

Yes. We go through a whole process and these things of analyzing how we want to approach it. And in some cases, we might be happy ourselves not to take the whole deal. And in other cases, we'll want to take the whole deal. So I won't speak deal to deal, but as I said earlier, we have the ability, which is nice to be quite selective on these deals, and we'll continue to exercise that.

Operator

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

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

Good morning. Question for Dan, I guess. We saw expected profit down in the U.S., 8%. And I would hazard a guess, that's probably related to the adjustments made for the in-force. But what I wanted to understand, was there an impact at all from your outlook on the group business? And with that, can you talk a little bit more about any competitive threats or trends that you're seeing in the group business? You mentioned it last quarter. Just hoping to get an update.

Dan Fishbein - *Sun Life - President of Sun Life - United States*

Yes. Thanks, Doug. The primary drivers for the change in expected profit, as you noted, were the lower interest rates and its impact on the IFM business. In the group business, we included some impacts from COVID, which at least temporarily offset gains from business growth. And there's also an impact from foreign exchange, which has changed pretty significantly year-over-year. As for the -- whether or not that reflects increased competitiveness or different conditions, overall, not really. The COVID impacts obviously are something affecting all group carriers, particularly in the life mortality, and that should start to wane over time. Obviously, we see -- we hope that will improve soon. So that's more of a temporary impact. Overall, in terms of competition, of course, it remains a very competitive market. But we don't see any substantial changes in the competitive environment year-over-year.

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

So you're building in a weaker group results from an expected profit perspective because of your outlook for higher mortality experience in the group business over the next year. Is that safe to assume?

Dan Fishbein - *Sun Life - President of Sun Life - United States*

Well, that's one of the drivers, especially during the early part of the year with the kind of mortality we've been seeing. So we did build some of that in. So that -- but the other factors are important as well.

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

Yes. Okay. That's fair. And then maybe for Steve, SLC underlying earnings were down 8%, definitely below what we were looking for. I just -- and obviously below maybe the guidance or the -- what we talked about maybe at the Investor Day, obviously, looking out. But what I'm just wondering is, is there anything unusual in these results that kind of weighed on it this quarter? Just hoping to get a little more colour?

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

Yes. Thanks, Doug. I'm glad you asked the question. As Manjit mentioned, we did have some kind of term one-off or timing expenses in the quarter. The biggest related to some appreciation in long-term incentive units at BentallGreenOak that we expensed in Q1 and hadn't accrued for throughout 2020. We had some other charges related to some retirements and some other things related to compensation. And all those things hit in Q1, and it was a quarter when we didn't have kind of an offset where we had some kind of onetime revenues as we saw in the fourth quarter. I would say that our -- the underlying earnings within our core earnings in the quarter were right in line with our expectations and very consistent with the guidance that we gave during Investor Day.

And maybe I can take the opportunity just to make a few key points that may be useful as you track our progress going forward. And the first is that this is a pretty stable business because our AUM is stable, and that means that the kind of the basic core earnings driven by management fees are stable and they've been rising as our AUM has grown. But on a quarterly basis, you will see some fluctuations from time to time. In the fourth quarter of last year, we were above that kind of core earnings rate because we had some catch-up fees hit in the quarter, some performance fees and those fell bottom line this quarter. As I mentioned, we had some one-off expenses, but the underlying kind of core earnings rate should continue to be stable and rising. And as I said, the first quarter was definitely on that basis in line with our guidance and our expectations.

But that leads to my second point, which is I think one of the best ways to track the health of this business over time is by tracking our inflows, our ability to attract new investors to our platform. And this quarter, as you see in the numbers, the inflows are very strong. On Dean's first slide, we noted that fee eligible inflows were CAD $8.6 billion. And even if you deduct the CAD $2 billion of outflows, that's almost 4% of AUM, so net flows of almost 4% of AUM in the quarter.

Now those are going to be also lumpy to lumpy quarter-to-quarter, but as long as we can continue to do that, the core earnings power of SLC is going to continue to rise. And then the only -- the final point I'll make is that I think the breadth of those flows is important. We've got a broad platform across many different asset classes. And this was a good example of this quarter. We -- that CAD $8.6 is made up of wins across the platform from fixed income, closing funds and private credit, raising a CLO, doing a follow-on offering for one of our listed funds in the U.K., and infrastructure, et cetera. So we feel like we're starting the year with some pretty good momentum.

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

Sorry, Steve, if I could just clarify, the CAD $11 million, is that what you're saying is core, that's reasonable? Are you saying CAD $11 million-plus if you remove some of the unusual expenses like the retirements and incentive units, that would be more where we should think about?

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

No, I'm saying that -- yes, I'm sorry. The CAD $11 million, I think, is kind of lower than we would expect because of those one -- those expenses that I would kind of say were unusually large this quarter.

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

And have you quantified those?

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

We haven't -- I don't think we've called those out in our specific results. But what I will say is this, we kind of, I think during Investor Day, gave a sense of what we thought our core underlying earnings rate was today. This quarter was consistent with that, and it's also consistent with the longer-term guidance that we've given.

Operator

And your next question comes from the line of Nigel D'Souza of Veritas Investment Research.

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

Thank you. Good morning. I had a question for you on interest rate sensitivity. And when I look at your table on interest rate sensitivity and kind of drill down to the OCI component, I noticed that the impact through OCI from a 50 basis point parallel shift is still about CAD $250 million this quarter versus last quarter, so it hasn't changed. And I understand that you round that up to -- down to the nearest CAD $50 million, but maybe could you speak to what's helping you minimize the interest rate sensitivity or the impact of interest rate shifts to LICAT? And how you've managed to mitigate that risk?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Nigel, it's Dean. Thanks for that question. We're going to ask Kevin Morrissey to take it?

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

Yes. Thanks for that question, Nigel. So in terms of our LICAT, our sensitivity, you would have noticed that the sensitivity did come down this quarter. And that's a bit of a function of the interest rate environment. So without going into too much detail because there is quite a bit of complexity into all the moving pieces in the numerator and the denominator. But the size of the shocks, I will note, do go up and down with the different changes in an economic environment. And so what we've observed is in the current environment, which is higher interest rates generally, especially across North America, we've seen our sensitivity come down on both the up and the down charts. And I think that's a good profile. And I think it's also a bit of a natural profile, too, as the environment becomes less stressed, we're seeing kind of less movement and less counter kind of cyclicality in the moves as we're moving out of the stress interest rate environment.

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

That's really helpful. And if I could just finish off with a broader question on earnings on surplus. We've seen a pretty sizable increase in yields recently in the first quarter. And I know it takes a while for that to flow through to invested assets and invested asset returns, but do you have a sense of when underlying net income could start benefiting through higher earnings of surplus if yields stay where they are or continue to move higher?

Kevin Strain - *Sun Life - President & Director of Sun Life*

I can take -- it's Kevin Strain. I can take that one. We were still expecting the earnings on surplus to be roughly CAD $100 million. That's kind of what we've talked about in the past, and you can kind of expect it to be in that range. We will get a benefit longer term of the rising interest rate, but we're also losing some AFS gains. And so you get kind of some pluses and minuses, and so we're kind of focusing on the net number there, the CAD $100 million.

Operator

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

Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

Good morning and thank you for taking my questions. My first question is about net flows in MFS. You had very strong gross sales. I think it might be one of the strongest in mutual funds. But redemptions kind of spiked up in the quarter. I was just wondering if you have any colour that you can share in terms of what you saw in mutual fund net flows?

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

Good morning Humphrey, it's Mike. Yes, I mean, we clearly had strong gross sales in the quarter. I mean, there are 2 parts of the business where we saw higher redemptions: The first would be where we were not -- I guess, which was not surprising, was the institutional business. That's primarily today an equity book of business and we see when markets are at all-time high, you see de-risking and rebalancing back into fixed income during those periods of time, which is the converse of what we saw a year ago where we saw better flows in that business. So that was not surprising.

Year-over-year in our non-U. S. retail business -- so our U.S. retail business continues to generate strong gross and strong net. On the non-U.S. retail, we did see higher redemptions in the quarter, driven by, I think, a couple of factors: One is, we've seen sort of the market, particularly, in Europe, move more to thematic product. So as you see things like technology and many of the other themes that are playing out in the marketplace, we do see investors chasing some of those trends within that channel. The second to call out would be a year ago, our best selling product was a hedged equity product. And so it's a product through cycle that's going to produce a return relative to cash.

Investors cared a lot about that a year ago when they were worried about downside, and investors today clearly aren't focusing on downside. And so we've seen net flows go from positive in that particular product to negative. And so those would be the things that I'd call out from a net perspective. But again, last year was an outsized year for us relative to the industry, driving really strong net when the industry continued to struggle and active. And I think the way that we look at it is a relatively flat quarter when money continues to move and chase performance. We're relatively pleased. The thing that we control is gross flows, and we continue to see strong gross.

Humphrey Lee - *Dowling & Partners Securities, LLC - Research Analyst*

Got it. Thank you. My second question is related to in-force management. I think in the past, you've talked about -- you like the business and you focus on optimizing it and drive better cash flows and value all of it. But given the increased interest in risk solutions, especially in the U.S., and pricing seems to be getting better, has your thinking related to in-force management changed?

Dean Connor - *Sun Life - CEO & Director of Sun Life*

Humphrey, it's Dean. Thank you for that question. I think the -- you're right to note the interest in these businesses. But I would say that, that's not new. We've seen lots of interest in closed block, especially closed block insurance businesses in United States over the past number of years. And my guess is, as you look ahead, you'll continue to see lots of interest in those businesses, particularly as more capital moves from public to private hands. So I think we've been consistent on this. We've been focusing on improving the execution and the performance of the in-force management business. We've made great progress, great progress on expenses, on capital, on tax, on dealing with some of the issues, including stranger-owned life insurance, where we've made great progress sorting out some of those issues.

And we still see some -- there's some opportunity there left yet, but clearly, it's not a growing business for us, and that's something that we'll think about as we go ahead. Like we do with all of our businesses, we think about where they fit in the overall 4-pillar strategy. And you've seen us add and subtract, change that mix over time. So we think about that for all of our businesses.

Operator

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

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

Thank you, Adam. 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

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