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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. My name is Sarah, and I will be your conference operator today. At this time, I would like to welcome everyone to Sun Life Financial Second Quarter 2021 Financial Results Conference Call. (Operator Instructions)

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

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

Thank you, Sarah, and good afternoon, everyone. Welcome to Sun Life's Earnings Call for the Second 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 remarks with a message from Dean Connor, our Chief Executive Officer. We'll then turn it to Kevin Strain, President and incoming CEO, for highlights from the second quarter. Following Kevin's remarks, Manjit Singh, Executive Vice President and Chief Financial Officer, will present the financial results for the quarter. After their 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 afternoon.

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*

Thanks, Yaniv, and good afternoon, everyone. As you know, this is my last quarterly earnings call, and I have just a few comments before turning it over to Kevin. It has been the privilege of a lifetime to lead Sun Life for the past nearly 10 years. This is such a great business. We have a noble purpose, helping clients achieve lifetime financial security and live healthier lives. We've put clients in the center of everything we do.

And that plus our purpose has created a magnetic pull for talented employees and advisers who want to have an impact, who want to grow their careers and be part of a winning team. It's that talent and culture that has allowed us to execute effectively on our 4-pillar strategy. I do want to thank our investors who have supported Sun Life's growth strategy and this management team over time. We have benefited from your many questions and suggestions, and we've always imagined that you are in the room alongside us as we made critical decisions around the allocation of your capital.

I also want to thank the many sell-side professionals, who have followed Sun Life and who have invested the time to understand our story and our future prospects. The company will be in great hands with a strong and experienced executive team and with Kevin Strain at the helm. Kevin's skills, character and his experience leading businesses in Canada and Asia and more recently as our CFO, have uniquely equipped him to lead Sun Life onwards to future success.

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

Kevin Strain - *Sun Life - President & Director*

Thanks, Dean, and good afternoon, everyone. Over the past 10 years, Dean has built a strong foundation for Sun Life, underpinned by our 4-pillar strategy and our focus on clients while nurturing a strong culture, where our people can thrive. Dean is leaving behind a lasting legacy of Sun Life. Under Dean's leadership, the company has made key strategic decisions that drove top-quartile returns for our shareholders, with annualized total shareholder returns of over 18% during his tenure.

On behalf of our employees, advisers and partners around the world, I want to thank Dean for his guidance, inspiration and leadership over the past 15 years he's been with Sun Life. Dean, you are retiring from Sun Life on a high note, and I know you will continue to follow the company closely and will be cheering us on. We wish you the very best.

Turning to Slide 5 for the highlights from the second quarter. Reported net income of CAD $900 million was up CAD $381 million. Underlying net income and earnings per share increased 19% from the prior year, reflecting strong growth across our businesses, driven by investments in our people and technology, as we continue to emerge from pandemic conditions. We also generated a strong underlying return on equity of 16% in the second quarter. With a LICAT ratio of 147% at SLF, we continue to have a strong capital position, which provides flexibility and the opportunity for capital deployment.

While we've been operating and executing in a challenging environment over the past 18 months, we have maintained a relentless focus on our purpose of helping our clients achieve lifetime financial security and live healthier lives. We continue to invest in ways to make it easier for clients to do business with us.

In June, we announced that clients in Canada between the ages of 18 to 40 can now qualify for up to CAD $5 million in life insurance coverage without the need for lab exams. This means that approximately 75% of clients may not require lab exams going forward. We are transforming our underwriting processes through data and analytics, using predictive models to replace previously required health tests. At a time when health and financial security have never been more important, we are making life and health insurance more accessible than ever before for our clients.

In Asia, we have made substantial investments in our technology, tools and products. For example, in Hong Kong, our mandatory provident fund offering continues to outperform the market. We are now ranked first in net inflows and third in assets under management based on second quarter results.

We are adding new and innovative capabilities to our group businesses in the U.S. On July 1, we completed our acquisition of PinnacleCare, a leading U.S. health care navigation and medical intelligence provider, which is now part of our U.S. stop-loss and health business. Sun Life and PinnacleCare create a new dynamic that will improve care, outcomes and costs for our clients. PinnacleCare's health advisers help members navigate the complex U.S. health care landscape to identify the best possible treatment options for their unique conditions, leading to better client health outcomes.

Sustainability continues to be a strategic priority for Sun Life. Our commitment also includes sustainable investing. Recently, MFS and InfraRed Capital, our infrastructure manager in SLC Management joined the Net Zero Asset Manager Alliance. In Q2, we also made several investments across our private fixed income portfolio that align to our sustainable investing goals and, more importantly, demonstrate the positive impact we can have on society. These include sustainability-linked financing to a North American shipping company that is reducing the carbon intensity of its fleet annually while keeping in line with ambitious quantifiable decarbonization targets. We also invested in green bonds, where proceeds will be used to improve the efficiency of certain buildings. These are examples of how we continue to incorporate sustainability into our investment decisions.

In the second quarter, wealth sales and asset management gross flows were up 8% from prior year on a constant currency basis, driven by strong gross sales at SLC Management and higher wealth sales in Asia and Canada. In Q2, 96%, 61% and 93% of MFS' U.S. retail fund assets ranked in the top half of their Morningstar categories, based on 10-, 5- and 3-year performance, respectively.

Moving to digital highlights on Slide 6. We look at how digital is helping us deliver on our purpose of helping clients achieve lifetime financial security and live healthier lives. In Canada, our digital coach, Ella, continues to connect with our clients, helping them save for their future and ensure protection of their loved ones. In the first half of the year, Ella's nudges drove nearly CAD $500 million of wealth deposits and the sale of over CAD $650 million in life insurance coverage for our clients.

In the U.S., we are helping clients get the coverage they need through new offerings and digital capabilities. An example of this is the expansion of our online dental health center capabilities, which enable clients to receive dental estimates and access advice virtually from leading dentists. We also continue to advance digital in Asia. In the second quarter, 74% of new insurance applications were submitted digitally, an increase of 41 percentage points over Q2 last year.

Stepping back, we're pleased with the results Sun Life achieved in the first half of the year. We've delivered double-digit earnings growth, strong ROE and maintain a solid balance sheet that provides us with significant flexibility. As some parts of the world have slowly started to open up, we've received many questions about our future work status. Last month, we outlined our guiding principles for our employees for the post-pandemic future of work. This includes supporting flexible work styles, revolving around our client and business needs. In our offices, we're committed to providing safe and healthy working environments that are designed to spark collaboration, productivity and creativity.

We want the office to be a magnet for employees at times when face-to-face collaboration is more effective, and we're making investments in our office spaces to enable this. And whether employees are working from home or in the office, we're committed to providing them with a great seamless work experience with the tools, technology and support they need to do their jobs. Our approach to a hybrid working model supports our goal to attract and retain talent and accelerates our ambition to be one of the best insurance and asset management companies in the world.

On a personal note, I'm looking forward to taking on my new role as CEO. I'm committed to building on Sun Life's success and keeping our clients at the center of everything we do, while remaining focused on our key strategic priorities, including continuing to push and support our digital innovation and transformation, making sustainability a key part of our strategy across insurance and asset management, leveraging our asset management strength, fostering a diverse, equitable and inclusive workplace, and above all, nurturing our strong caring, optimistic Sun Life culture where employees can develop and thrive.

With that, I will now turn the call over to Manjit, who will take us through our financial results.

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

Thank you, Kevin, and good afternoon, everyone. I also want to take a moment to recognize Dean's tremendous contributions during his tenure as CEO and wish him all the very best.

Let's turn to Slide 8 for an overview of our second quarter results. Sun Life delivered good results with strong momentum across all our business pillars. Reported net income of CAD $900 million was up 73% from the prior year, reflecting a recovery of market-related impacts as well as higher underlying net income. Underlying net income of CAD $883 million was up CAD $144 million or 19% from the prior year, driven by business growth, favourable credit experience and a more normalized effective tax rate for the current quarter. These factors are partially offset by unfavourable foreign currency translation, lower investing activity gains and higher incentive compensation, reflecting strong year-to-date performance across all of our businesses.

Q2 underlying earnings per share were CAD $1.50, and underlying return on equity was 16%. Assets under management climbed to nearly CAD $1.4 trillion, reflecting market value growth and strong net flows at SLC Management. For the first half of 2021, our wealth and asset management businesses generated CAD $14 billion of net inflows compared to CAD $8 billion in the first half of 2020. Book value per share was up 2% from the prior year, reflecting strong reported net income growth, mostly offset by foreign currency translation. Excluding impacts and other comprehensive income, book value per share increased 10% over the prior year.

Our balance sheet position remained strong. Q2 LICAT ratios of 147% at SLF and 125% at SLA were up 6 percentage points and 1 percentage point, respectively, from the prior quarter. The main driver of the increase at SLF was the issuance of CAD $1 billion of limited recourse capital notes, which added approximately 5 percentage points of LICAT. The issuance also increased holding company cash to CAD $3.2 billion, and the financial leverage ratio ended the quarter at 24.7%. Subject to regulatory approval, our intention is to redeem 2 series of fixed rate preferred shares totaling CAD $725 million at the end of the third quarter. Upon redemption, SLF's LICAT ratio will decline by approximately 3 percentage points, and the financial leverage ratio will decline by approximately 2%.

Slide 9 highlights the performance of our business groups. Given the significant impact of foreign currency translation on our year-over-year results, we've also provided earnings growth in constant currency on this slide. Canada's reported net income of CAD $404 million in Q2 was up CAD $287 million over the prior year, driven by favourable market-related impacts. Underlying net income of CAD $290 million increased CAD $9 million, reflecting continued business growth in insurance and wealth management as well as favourable credit experience. This was partially offset by a lower contribution from investing activities as the prior year included gains related to investments initiated while credit spreads were more favourable.

The U.S. reported net income of CAD $157 million, was up CAD $39 million versus the prior year, reflecting higher underlying net income. Underlying net income of CAD $165 million was up CAD $42 million or 51% on a constant currency basis, driven by favourable mortality, morbidity and credit experience as well as higher investing activity gains. This was partially offset by unfavourable expense experience from higher incentive compensation costs, reflecting strong results in the first half of 2021. The U.S. Group Benefits business achieved after-tax margin of 8.5% on a trailing 12-month basis, up from 7.5% in the prior year.

Asset Management reported net income was CAD $221 million, down CAD $2 million from the prior year. This reflects fair value adjustments on MFS share-based awards and the impact of a U.K. tax rate change in SLC Management, largely offset by underlying net income growth.

Underlying net income for MFS of CAD $286 million was up 41% on a constant currency basis, driven by strong average net asset growth, partially offset by higher variable compensation expenses. MFS ended the quarter with a pre-tax net operating margin of 39%. SLC Management generated underlying net income of CAD $25 million, which was down from the prior year due to lower performance fees, partially offset by contributions from the InfraRed and Crescent acquisitions.

In Asia, Q2 reported net income was CAD $143 million, up CAD $17 million year-over-year. This was driven by improved market-related impacts, partially offset by unfavourable foreign currency translation. Underlying net income of CAD $152 million was up 17% in constant currency, driven by business growth and favourable credit experience. This was partially offset by higher compensation costs, an unfavourable mortality experience in the India joint venture.

Corporates reported net loss of CAD $25 million improved from the prior year, driven by higher net tax recoveries in the quarter, partially offset by unfavourable expense experience and lower seed investment gains.

Slide 10 provides an overview of our sources of earnings. Expected profit increased 9% from the prior year. Excluding the asset management pillar and the impact of currency, expected profit was up 7%, driven by business growth in Canada and Asia. New business gains increased by CAD $21 million over the prior year, reflecting strong sales growth in Asia, along with robust sales growth in individual insurance in Canada. Experience gains of CAD $99 million were primarily driven by market-related impacts. Earnings on surplus of CAD $118 million declined CAD $37 million from the prior year, which included higher seed gains.

Turning to Slide 11, which outlines insurance and wealth sales on a constant currency basis. Individual insurance sales were up 52%, driven by higher participating policy sales in Canada and an increase in sales across most markets in Asia. While sales in Asia have improved, we are seeing renewed lockdowns in some countries as a result of new variants. We are working closely with our local teams to monitor the situation.

The slight decline in group benefit sales was driven by lower stop-loss sales in the U.S. and flat sales growth in Canada as we continue to see fewer large cases coming to market in the current environment. Wealth sales increased 63% on a constant currency basis compared to the prior year. In Canada, sales increased 47%, reflecting higher individual wealth and Group Retirement Services sales. Asia sales increased by 81%, reflecting growth in mutual fund sales in India, money market sales in the Philippines and the Hong Kong pension business, where we are now the market leader in net inflows.

Asset Management gross flows increased 3% year-over-year, driven by higher gross flows in SLC Management, partially offset by lower sales in MFS. MFS ended the quarter with USD $5.6 billion in outflows, reflecting continued inflows in retail, which were more than offset by institutional outflows. SLC Management had strong net inflows of CAD $7.6 billion, which will generate good fee income in the coming quarters. Value of new business generated in the second quarter was CAD $284 million, up 46% in constant currency compared to the prior year, driven by strong sales in Asia and Canada.

Turning to Slide 12. Operating expenses were up 15% from the prior year. Excluding the impact of currency, run rate expenses from acquisitions and fair value adjustments, expenses were up 17%. 8 percentage points of this increase was driven by higher incentive compensation and sales-related costs in our asset management businesses, reflecting strong revenue growth. Another 8 percentage points was driven by higher distribution costs in Canada and Asia, reflecting robust sales growth as well as a higher accrual for our annual incentive compensation plan.

The increase in the annual incentive compensation plan accrual reflects strong business performance in the first half of the year versus weaker year-to-date performance in the prior year, which included the impact from the onset of the pandemic. The remaining 1% increase was attributable to continued investment in our business, partially offset by savings from our focus on disciplined expense management.

To conclude, Q2 was another good quarter. highlighting the strength of Sun Life's balanced set of businesses, which operate in attractive markets with significant growth opportunities. While the pandemic has resulted in a challenging operating environment, we are pleased with the resiliency and strength our businesses have demonstrated. And we're continuing to invest in initiatives to further enhance our client experience, digital capabilities that transform the way we work and business opportunities to drive future growth.

Now I'll hand the call back to Yaniv Bitton for Q&A.

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

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Humphrey Lee with Dowling & Partners.

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

And before I ask the question, I do want to extend my congratulations to Dean for your retirement. It's been a pleasure working with you. My first question is related to the U.S. Group Benefits business. One of the health insurers in the U.S. has talked about rising medical costs on the earnings call today. I know a topic of medical inflation is not new. But given the broader inflation concerns, how do you see inflation affecting the stop-loss business? Generally, what have you been your observation so far? And have you looked at how to address that?

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

Humphrey, it's Dan Fishbein. Thanks for the question. Generally, when we look at medical inflation in the stop-loss business, we're able to predict that in advance and build that into our rates. And actually, that's been one of the drivers of the growth in premiums that we have in the business.

But at the same time, there are obviously somewhat unusual effects from the COVID pandemic. What we're seeing in our book of business so far is one of the reasons why we have lower morbidity in that business this year is likely some delays in treatment due to the pandemic. And that plays out in later periods in lower stop-loss claims.

Now that's not the only reason we're seeing favourable results. The favourable morbidity is obviously also related to good performance in our underwriting and pricing. We do have some concern about delayed treatment, obviously, on behalf of our members. And that's actually one of the ways that we can use our new PinnacleCare acquisition to help guide people to the right care at the right time. But we would expect that in subsequent periods, we may see some increased utilization as compared to the depressed level of utilization that we've seen in the past couple of quarters.

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

Yes. That's more on the tenant demand or kind of normalization of activities. But given some of the kind of the pricing dynamics going on, have you seen any kind of difference or the deviation of medical cost inflation from what you're seeing versus what you have in your pricing assumptions?

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

Not at this point. Again, actually, we're seeing quite the opposite because of lower care or delayed care. But as far as the overall trend, there's always medical inflation. That's been a part of medical care in the U.S. for a very long time. And we always have a forecast, which we work with outside actuarial firms to confirm as to what medical inflation will be and build that into our pricing. So at this point, beyond some of the anomalous impacts related to the pandemic, we're not seeing anything that would suggest, for example, a substantial increase in the level of medical inflation.

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

Understood. My second question is related to the strong SLC flows. I think this is the second quarter in a row that you have secured large capital commitments that's driving higher net flows. Since these flows haven't been really funded, like how should we think about the lead time getting these inflows versus turning them into fee earnings assets that flow through your earnings?

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

Humphrey, this is Steve Peacher. Thanks for that question. You're right to point out that we've had a couple of strong quarters of flows. And I think importantly, it reflects capital raising across the broad platform at SLC. So we're very pleased by that. And when we raise -- and that capital comes in different forms sometimes, and this was a quarter where that was reflected. That money comes into closed-end funds, where investors commit capital and then we invest that over the coming quarters. Sometimes it comes from winning a new separately managed account that would be funded immediately.

When we get money that's committed to a closed-end vehicle like an alternative credit fund or a new real estate fund, there's usually an investment period of 2 to 3 years to get that money invested. It often gets invested much more quickly than that. So it depends on the type of commitment we get, but it's not an immediate flow, which sometimes it is you can usually expect that, that money will be invested and turn into fee-paying AUM over the coming year or 2. We do have some funds where we get paid fees on committed capital even before we've invested it, but I would say that's more the exception than the norm.

Operator

Our 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*

I want to first off, Dean, wish you best of luck in your new chapter. And I hope you get to golf more. In terms of questions, I just wanted to revisit the subject of return of capital. And first off, from the dividend perspective, you're running at a payout ratio below your target range. And I'm wondering when the green light finally comes, so where do you want to be? Do you want to be at the midpoint? And how fast do you think you want to get there?

Kevin Strain - *Sun Life - President & Director*

Meny, it's Kevin. Thanks for your question on the dividend. We remain committed to paying out a dividend in the 40% to 50% of earnings range that we've talked about in the past. And getting to there once the restrictions are lifted, as you've noted. Our intention would be to do like we were before that earnings would grow -- dividends will grow alongside of earnings in sort of the 8% to 10%, which gives the investors kind of a sense of what they can expect from the dividend, so that it's sustainable and gives sort of good growth perspective. So we're still looking at the 40% to 50% range.

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

So just I understand you correctly, there is -- it's reasonable to assume that you're going to catch up and get into that range before growing more in line with sort of regular earnings growth? Is that what we're talking about?

Kevin Strain - *Sun Life - President & Director*

Yes. That's right. That's how you should think about it. We would more quickly get into the range and then we would go back to sort of that sustainable 8% to 10% growth alongside earnings.

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

And then just on the buyback front, a lot of excess capital. There are definitely capacity to do buybacks once they're allowed. If I look back pre-pandemic, 2018, 2019, you were buying back about 2%. Is it reasonable to assume that you could buy back more than that? Is that something you're contemplating at this stage in terms of a larger buyback than what we saw pre-pandemic?

Kevin Strain - *Sun Life - President & Director*

It's Kevin again. Our priority has always been on deploying capital for growth, whether that be organic growth and investing in the business or through M&A. When we look at the pipeline and we see that we have excess over what we believe we would need, then we make that decision in terms of the buyback. So it's really dependent on where we are in terms of organic growth opportunities we see and investments we can make, but also in terms of M&A that's there in terms of opportunities. I will say that we're disciplined around how we use the capital. And by discipline, I mean we're -- we look at our MTOs. And as we deploy capital, we wanted to support all of our MTOs. It should support earnings growth. It should support our ROE targets, and it should support cash back. So we will deploy capital based on the same discipline that we've had in the past.

Operator

Our next question comes from the line of Tom MacKinnon with BMO Capital.

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

So just want to offer my congratulations to Dean and team, not only in a great crew at Sun Life but a great crew at Mercer as well and a sort of very rewarding professional life. And I hope you enjoy all the best that comes to you in the ensuing year. So I guess maybe the first question would be for Dan. Just with respect to stop-loss sales, it seems to be the lowest second quarter we've seen in a while. Maybe you can comment on what you're seeing out there in the marketplace. Is there pricing pressure? Any commentary on that? And I have a follow-up.

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

Yes. Thanks. This is Dan. We're definitely seeing some increase in competitive pricing in the stop-loss business. There's no question about that. It's our belief that some of this is related to the fact that probably most stop-loss carriers are seeing favourable experience, maybe not to the degree we are, but they're seeing favourable experience right now, at least partially due to delays in care. And that may be leading to some competitors being more aggressive on pricing, particularly as they're trying to make up for misses on sales, especially last year.

So we are seeing that. That's the major driver for why our sales are down somewhat. Now our sales are still very high. We're running -- in the quarter, we were at about 85% of the prior year quarter. And that still puts us well in the lead amongst independent stop-loss carriers well ahead of anybody else. But we are largely sticking to our guns on pricing and the margins that we build into pricing. So we will accept a little bit lower close ratio if necessary rather than sacrificing future margins.

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

Okay. And then as a follow-up, just with respect to the expense experience losses in the quarter. Traditionally, Sun Life would kind of roll along for the first 3 quarters of a year with not much activity in terms of expense experience and then book some losses as a sort of a catch-up in the fourth quarter maybe to reflect incentive comp and other spend. How should we be looking at this cadence going forward? Is this the loss that you took in this quarter? Is that a bit of a catch-up? Or should we -- every time we see some like stock price go up, we should be looking for a negative in that expense experience line?

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

Tom, it's Manjit. I'll take that question. So the expense experience you saw was largely related, as I mentioned in my remarks, to an accrual we've made on the incentive compensation plan. As disclosed in our proxy circular, the key drivers on that plan are really our underlying earnings, our reported earnings, VNB and various client-related metrics. And we constantly take a look at how we're performing against the targets that we've established. So as you saw this quarter, we performed extremely well alongside all those measures, and the accrual really reflects that strength and performance.

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

And is that the strength and performance over what time frame? Is that just over fourth...

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

It's the year-to-date view.

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

And so you haven't made any adjustments in the last 12 months up until this time?

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

No, it's year-to-date fiscal. So it would have been for the first six months of the year.

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

Year-to-date fiscal. So if we saw a similar kind of growth in 6 months of underlying earnings in VNB, would we expect a similar kind of expense experience loss?

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

We have an annual target, Tom. So we would look at how we're trending on the annual target and what that payout would suggest relative to what we've accrued year-to-date and make any adjustments that are required.

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

Okay. And -- So you're just going to revisit this more on a quarterly basis as opposed to...

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

Yes, we think that's more appropriate because it really then matches up the performance in the quarter against the expense in the quarter.

Kevin Strain - *Sun Life - President & Director*

Tom, it's Kevin Strain. I'd just note that the 3 big elements of our annual incentive pay are reported earnings, underlying earnings and VNB. And you can see that reported earnings there's a big jump up this year with the economic conditions. And so that starts to come through as through the other elements. So that gives you a sense of what the 3 most important sort of elements are. The fourth one is client performance, and that's also on an annual basis.

Operator

Our next question comes from the line of Doug Young with Desjardins Capital Markets.

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

Maybe just starting, Dan, back to yourself on the U.S. group side, and we've seen a steady improvement in the reported earnings. And your LTM after-tax profit margin is 8.5%. And you talked a bit about things eventually normalizing? And how -- like over what time frame should we think about claims trends starting to normalize? And can you remind us like where does this after-tax profit margin likely settle down? And if you can kind of maybe address it on the employee benefit and the stop-loss side?

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

Well, thanks. As you know, our target margin is 7% or greater. And as you pointed out, we're now at 8.5%. So well above that number. There are different factors pointing in different directions, which makes it very hard to predict exactly how that will play out over what period of time in the future. So I'll just quickly go through what some of the biggest factors are.

On mortality, we obviously, over the past 16 months, have seen significantly elevated group life mortality. That did moderate in the second quarter, although we certainly have some concern about that maybe starting to come back with the delta variant. We continue to see elevated short-term disability claims directly related to COVID. The good news is our long-term disability experience so far has been relatively benign in line with expectations.

Dental claims this quarter were in line with normal expectations, but much higher than the same quarter last year because as you'll recall, last year, at this time, dental offices were closed. So there was very little dental utilization. And then, of course, there's the stop-loss component of this as well, which I described a little earlier, but it has been very favourable.

We believe the majority of that favourability is due to delays in care related to COVID, but certainly not all of it. There's underlying favourability in our performance that should continue. So as to how exactly all of those factors play out over what period of time, it's not really possible to predict that. We would say we're confident of being able to remain at or above the 7% target. We still feel good about that target.

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

Okay. So we should expect the gravitation over whatever time frame back towards the 7% for this business essentially? And that's what you're trying to...

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

Well, I mean not necessarily exactly those words. But because there are different factors that go in different directions. So for example, we may see lower mortality over the next several quarters as COVID hopefully wanes, and we should continue to see some favourability in stop-loss. So it's a little bit hard to say exactly where that will settle out.

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

Sure. No. Totally understand. And then -- just on MFS, obviously, the institutional net outflows were elevated. Can you maybe break down what you're hearing from your clients? What drove that elevated net outflows? Is there a specific mandate, specific rationale for money coming out? Just hoping to get a little colour on that.

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

This is Mike. Yes, the majority of the -- well, all the outflows were institutional, but represented by just a few outflows in the quarter. And maybe a couple of things on the institutional insurance side. The first is the entire book is almost entirely equity based. And so as markets make all new time highs, you get derisked in pension plans, you get rebalanced to an asset allocation and other plans. And so that's just generally a headwind at market highs. And then the second, as to some of the larger redemptions that we saw in the quarter, it was really move to passive rebalancing of plans and was nothing out of the ordinary other than just a couple of really large plans in the quarter.

Operator

Our next question comes from the line of David Motemaden with Evercore ISI.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

And I'd like to echo, Dean, congrats on the retirement and stellar career. So I guess my first question is for Dan, just on the stop-loss experience and on the lower utilization. I'm wondering if you could -- if you could just tell us if you're seeing signs of utilization picking up as things kind of reopen and maybe just quantify how much of a benefit that was in the quarter?

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

David, it's -- we see utilization well after it occurs because what a stop-loss claim, obviously, is, is a very severe claim. So it takes a while until a person has had that level of care and severity of illness until that threshold is reached and then ultimately until the claim is filed. So there's a pretty long delay in when we would see that. What I can tell you, we've obviously done a lot of analysis of this. And we are also looking at external sources, just what's doing in general.

And hospital care has returned close to normal over the past couple of quarters outside of COVID, of course, but not completely back to normal. And then in our own experience, as you see in the second quarter, we've continued to see quite a bit of favourability, which as I said, we think is more than half due to delays in care, but not entirely due to that either. So at least through the end of the second quarter, we were continuing to see very favourable morbidity. And at least as of that point, we hadn't started to see that wane at all.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. And some of the leading indicators that you're tracking would suggest that, that is the continuing trend is what it sounds like?

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

Well, all I can comment on is what we've seen through the end of the second quarter. But -- and that has continued to be quite favourable. We would expect inevitably that care will catch up and people will catch up with getting care and getting diagnosis. But at least through the end of the quarter, we hadn't really seen that yet.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. Okay. That's helpful. And then maybe just shifting gears, a question for Leo. I guess maybe could you just -- wanted to just touch on individual insurance sales in Hong Kong. I think things have started to open up there. And I'm just wondering if we've started to see the pipeline start to build back up on the hub side.

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

David, it's Leo here. Thank you for your question. So what you'll have seen in Q2 in terms of International Hubs sales, which is our Hong Kong local business, our Hong Kong High Net Worth business and then our Bermuda High Net Worth business and then newly Singapore, what you'll have seen is decrease in sales overall in Hong Kong last quarter. That is really composed of 2 things. First is continued strong sales on the agency side, as a result of our focus on Local Markets and continued strong demand locally, and a decline in sales in the broker and high net worth space. That was offset by a very strong quarter in high net worth sales in international in Bermuda.

And so the way you should think about this is really overall, and this is really the rationale for us bringing together International Hubs and all of our high net worth businesses, where the brokers are really dealing with international clients -- high net worth, ultra-high net worth clients, where location is somewhat fungible and the brokers will place the business in the most effective location at any given point in time. And so what we saw there in Q2 is that travel restrictions continue to actually be quite strong in Hong Kong. Over the course of Q2, you were facing 3-week quarantine coming into Hong Kong and only for residents of Hong Kong. And so that has made high net worth sales continuing to be quite difficult.

But in contrast, we saw strong demand through our offshore business in the second quarter. The other thing that happened for us in international is -- and we've been doing this across the business, we're constantly repricing the business based on market conditions and redesigning the products. And in Q2, specifically, we launched a new product in international and are closing an existing one. And so given the long nature of the pipeline in high net worth, you've got 6 to 12 months sales cycle. Our brokers, who had business that was in the pipeline, worked hard to get all of these policies issued before the end of this product. And so that brought forward some of our Q3 and Q4 sales into Q2. So that explains the strong international sales in Q2.

So overall, very strong sales in high net worth, less in Hong Kong, more in international. Going forward, we do continue to have restrictions in terms of travel into Hong Kong. So that should continue to affect the Hong Kong-specific business. We continue to have travel restrictions globally into Singapore and so on. And so we do see continued headwinds, but we also see brokers working very proactively, working on their overall pipelines, and there continues to be demand as a result of growing wealth and growing need for protection among high net worth clients.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. And to be clear, I guess, the Hong Kong -- the high net worth sales there in Hong Kong, are those -- It sounds like those are mainly offshore sales. Is that correct? There isn't really a domestic component there?

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

There is a domestic component to those sales. but they're a smaller part of the total. So you also have to rely on international as well. Yes. To rely on people being able to come into the markets.

Operator

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

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

Dean, congratulations on the retirement, and great run at the helm of Sun Life and my two cents, gentleman farmer trumps golfing. But my question is about the group business. I know we've had a lot of discussion there already, the puts and takes of some of the trends that are mostly headwinds lately. I'm wondering if we can keep it simple, both in Canada and the U.S., let's say, 2022, as utilization rates start to move higher as profit growth can be positive or flat or maybe negative in some of these markets? If you can just give me a very directional commentary.

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

So Gabriel, you want both Canada and U.S. or?

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

Yes, please, Jacques.

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

(foreign language) I'll go first, if that's okay, and then I'll push it on to Dan. So the -- we've said this before, in the GB market, in Canada at the moment, COVID is impacting the activity, particularly, Gabriel, at the large employer level, so what we call the national accounts. And in fact, if you were to split our portfolio between large, medium and small, what you'd find is that we're actually getting pretty good sales in small and medium, but the sales -- there's low activity at the larger end.

One of the reasons for that by the way, Gabriel, is that at the larger end, unlike the small and medium where you have more standard off-the-shelf type of plan, the large employers tend to have complex and customized plans. And so what's happening now is that it's more difficult and they don't want to create the level of disruption in the middle of COVID. I don't have a crystal ball for 2022, but I would expect that as we get past the pandemic, we'll start seeing activity rise again.

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

Earnings, I'm talking about, not sales.

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

Yes. Well, look, earnings, I would say, things are think -- for Canada, things are looking pretty good. As you can see, one of the things I'm particularly pleased about is we've got 13% expected profit growth across the business. That's, by the way, Gabriel, across all 4 of our business units, we're seeing expected profit growth. But as you know, that speaks to the more fundamental of the business.

There was a question for Dan a bit earlier about pricing. One of the things in Canada that we've been very disciplined on and try not to get into what I would call a race to the bottom. So we've been pretty disciplined on pricing and taking on business with a view of not just growing the top line, but growing the bottom line. So in terms of the earnings power, the continuation of the strong earnings power in Canada is what we expect. Dan?

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

And this is Dan. I'll address that for the U.S. So as I mentioned earlier, health care utilization has different effects on different products within our business group. Maybe the 2 that are most relevant to health care utilization are dental and stop-loss. Dental utilization is largely back to normal. So -- and we would expect that to continue.

And then health care utilization obviously affects our stop-loss business, and that's where there is some concern about delays in care, and both for the well-being of our members and then what that could suggest as hopefully those delays go away. So we would expect some increase in utilization in the stop-loss business certainly. But as to -- as I mentioned before, exactly how that plays out is very difficult to predict. Similar to what Jacques described also, we do price for increased utilization. And in fact, it is one of the drivers of premium growth in these businesses.

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

Yes, but I think you talked about that utilization for diagnostics and cancer check-ups and stuff like that on the last call, and that is a concern, is that made something that gets pushed back to 2023. I mean tough to predict these things, but let's hope they are on the horizon, right?

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

Yes. As I've said, it's tough to impossible to predict, but we are tracking different diagnoses categories very carefully, and we do see some continued delays in the health care system in general in cancer diagnosis. So that does concern us, again, largely for the well-being of our members, but also there could be some impact on our results in the future.

Operator

Our next question comes from the line of Paul Holden with CIBC.

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

Sort of continue along the line of questioning that Gabe just had, maybe as we think about the normalization or at least a lower margin for U.S. group, I calculate that roughly every 50 basis point move in that margin equates to roughly USD $20 million of annual earnings. Am I doing that math correctly?

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

Not sure if I can do that math as quickly as you can.

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

Okay. Okay. Maybe I'll follow up after this call to get a better sense of that. So 2 other questions I had, I guess, first one related to SLC Asset Management and the strong flows there. Is there any kind of sense you can give us on the pipeline? I assume you're active with current fundraising, so you might have some perspective on whether this level of flows can continue or maybe we step down to a more normalized rate?

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

Paul, this is Steve. Thanks for the question. We are going to see some volatility quarter-to-quarter because if you think of the fundraises with firms like Crescent and InfraRed, they're selling new closed-end funds, for instance, in the second quarter, we had the first closing on Crescent's eighth mezzanine fund. And we've got another year, and we expect to have 2 to 3 more closings on that fund. So that's going to lead to the numbers to fluctuate quarter-to-quarter.

We do have some new funds launching in the second half. We've got some sizable separate accounts that we're talking about. So it's hard for me to -- this is a business that will move around, but we have an aggressive projection for the year, and we're on for flows, and we're on track for that. So I don't -- I guess it's another way of saying I don't think the first half is an anomaly, but expect to see the quarterly numbers move around a bit.

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

Got it. And sorry, can you remind me, did you share that annual target flows for the year publicly?

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

No. No, I don't think we've given that number out.

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

Okay. Fair enough. And then I just want to also ask on the -- on Asia and sort of following up on some of the comments regarding COVID impact. Maybe Leo, if you don't mind, you can kind of just give a summation of which jurisdictions are seeing ongoing lockdowns, at least as of today and which are less impacted.

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

Paul, it's Leo. Thanks for your question. You're right to note that there's still quite a bit of movement with COVID in Asia. In particular, if you look at what happened in Q2, we're seeing a strong surge in the delta variant, especially in Southeast Asia, which is impacting the region. And it's actually quite broad. If you look at Q2, really what -- and now in the start of Q3 in July, you obviously had a very strong wave in India with not just high cases but also very high mortality at about 4,000 deaths per day at its peak.

Those numbers have started to come down in India, but we've seen a surge in the rest of the region. So more recently, you've seen Malaysia start going to a peak. Philippines has been kind of hovering at a constant level for the last year really. But then you're starting to see Vietnam have cases and quite a bit of an increase in the death rate. And then Indonesia is also at a peak of about 2,000 deaths per day, which is now higher than India currently is. So that's affecting broadly South East Asia.

We've also seen some cases in a few provinces in China. And so all the governments are responding with various lockdown measures. So Malaysia has been in a state of emergency, for example. Vietnam that had been completely open, people could travel across the country, is now facing movement restrictions, curfews and so on. And then you've had various escalations and restrictions in Indonesia and the Philippines and then now in various areas of China that are being affected.

So it's actually fairly broad. The only place where we haven't seen a growth in cases is in Hong Kong, and that's really a result of very strong travel restriction into the market. So the economy is running pretty well within Hong Kong, but it's very hard to travel in and out. So all of that obviously creates some uncertainty for us heading into Q3. Although we do feel confident about our positioning for recovery as a result of the strong investments we've made in the business in distribution and also in digital, enabling our advisers to engage with clients remotely.

Operator

Our next question comes from the line of Mario Mendonca with TD Securities.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Kevin, you are inheriting a company with a -- I still call the life insurance company, but it's got a 16% ROE, 147% LICAT at the holdco, reasonably low leverage. When I look at this, and I think a lot of people on this call would recognize that's not normal for a life insurance company. So when you look at this, how do you react to that ROE? Do you -- is your reaction simply -- well, Dean's made some good calls over the last 10 years, and we're not really a life insurance company anymore, so this is normal. Or do you look at it and say, we could -- your company could absorb a large transaction and maybe temporarily live with an ROE that's much lower, how do you look at it? Is this normal from Sun Life now?

Kevin Strain - *Sun Life - President & Director*

Thanks, Mario, for the question. First, you're absolutely right. Dean and the executive team under him have left an extremely strong foundation. The de-risking that was done early on in his tenure to exit some of the higher capital use businesses and focus on fee businesses and focus on faster growth jurisdictions like Asia and the addition of now SLC have positioned us to be very different than just an insurance company. And our ambition is to be one of the world's best insurance and asset management companies. And in fact, if you added up our asset management businesses, including GRS, which is defined contribution business that in many ways in Canada looks like an asset management business and pension risk transfer, we're almost half asset management.

And I can see us continuing to grow our earnings across the 4 pillars. I think we've got great growth potential in Asia, which we've talked about being 15% plus. I think we've got great -- we've got sort of such a leadership position and a strong brand in Canada. I can see Canada growing. We talked about 6% plus. The U.S., we've talked a lot about the U.S. on this call, and I think that, that growth in the U.S. Group Benefits business, we've got a real powerhouse in stop-loss and with the additional things like PinnacleCare to really extend that and the work that Dan and his team are doing on digital.

So Mario, our focus on reducing use of capital and fee income, not just asset management fee income, but fee income in our insurance businesses around the world that focus on financial discipline, on earning our targets on how we deploy capital. We've deployed capital in a way that tries to build all of our MTOs, right? We're trying to build earnings growth. We're trying to build ROE. We're trying to build cash flow and dividends back to our shareholders.

And that discipline -- I've been involved with Dean ever since he took over as CEO. I worked for him in Canada as well. That discipline, I like to think I was part of that as well as CFO. So we're going to maintain that, and not just me, the entire Executive Team. Dean's comments started with the Executive Team. So there's -- we're focused on making our business stronger and better. The work we've done on digital, the work we've done on which lines of business, the 4 pillars, and we're going to continue to build on that.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

All right. So 16%, even higher, I guess, is not unusual then for a company of Sun Life's make -- like there's no reason to expect that ROE to trend back down to 13%, which is where it was for much of Sun Life's time as a public company.

Kevin Strain - *Sun Life - President & Director*

I think our mix of business, if we continue to grow, we should be able to grow the ROE as well.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

Okay. Let me go to maybe a more detailed question. And it relates to the assumption review that's coming up next quarter, I don't believe you've given us any guidance. I don't think it's Sun Life's practice to give us guidance on your assumption review. So let me ask this, commercial real estate. It's an important part of the asset mix for Sun Life and every life insurance company. Is there -- should we be sensitive to the life insurance companies, including Sun Life have to revisit the asset return assumptions around commercial real estate. Is that a reasonable concern?

Kevin Strain - *Sun Life - President & Director*

So Mario, it's Kevin again. I'll let Kevin Morrissey address that question.

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

Yes. Thanks for that question, Mario. This is Kevin Morrissey. So we are reviewing a number of assumptions as normally the majority of our assumption reviews will be in Q3 this year, similar to previous years. Commercial real estate, real estate assumptions are definitely part of that review. We do review that assumption every year, Mario. So this is not something that's new for this year. We look at our experience to what we've had in the past. We also look at how the markets are changing and look at projections for the future as well. So I will note, we did have a significant gain in real estate this quarter, which was great to see.

So I guess the short answer to your question is, yes, it's certainly part of our review, and you'll see the results of that and all the other changes in the next quarter. But there's nothing that we're calling out or highlighting for Q3 other than the changes that have been announced and approved by the actuarial standard boards that the ultimate reinvestment grades and the ultimate credit spreads, and we will be making those updates in Q3, and we've included estimates in our disclosures on that.

Mario Mendonca - *TD Securities Equity Research - MD & Research Analyst*

And Dean, all the best in retirement.

Operator

Our next question comes from the line of Darko Mihelic with RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Dean, congrats. All the best. I have a question. I'm looking specifically at Slide 11. And I'm looking at the upper left-hand corner of the individual insurance sales, up 52% year-over-year. A few questions I wanted to poke at on this stuff. The first is, obviously, last year, we know there was disruption, but what's the biggest driver of the sales apart from just now sort of being out there and capable. Like has there been any pricing changes with respect to these policies that are being sold?

Kevin Strain - *Sun Life - President & Director*

So Darko, it's Kevin. I think it's best answered by pillar. So I'll turn maybe Jacques first to answer the Canada growth in sales, and then Leo can talk about Asia.

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

Darko, this is Jacques. Thanks for the question. As you point out, of course, the individual insurance sales are up significantly in Canada, CAD $121 million, up 57%. Remember that in Canada, we have 2 distinct channels. We have Sun Life Financial Distributors and then the third party, which is high net worth and ultra-high net worth. The high net worth is where the growth is the highest at the moment in Q2.

And this business can be lumpy, Darko. And in particular, if you put yourself back to the previous quarter in 2020, and the fact that there was a lot of medical facilities that were closed and so on, we saw lower sales in part because while we announced that we're going to go up to CAD $5 million without labs, when you get to the ultra-high net worth, these are very significant amounts. So there was, I would say, a kind of a buildup of the pipeline, and that has come through nicely this quarter. But I just want to highlight the fact that those can be lumpy from quarter-to-quarter.

Leo?

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

Yes. Good afternoon, Darko, and thanks, Jacques. So there are 2 parts to your question. The first one is the increase in sales and the second one was any pricing changes associated with the numbers. In the case of Asia, what you're seeing is a strong rebound on Q2 2020 sales, which were significantly affected by the start of the pandemic. And so we've really worked over the last year to drive distribution capacity in a COVID environment. Some of that has been increasing capacity with our partnerships with ACB, TP Bank in Vietnam, for example, but also the growth of our agency.

We're up in high single-digit rates in terms of agent count over that period. So strong capacity growth there and strong rebound as well with the digital enablement of all of our distribution. And then the second factor is that we constantly review our product pricing and our product design. And you're right that over the past year, we have taken pricing action across multiple parts of our business, notably international would have seen some price increases, Hong Kong, Philippines, Indonesia, Malaysia, so quite broad-based as well.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Okay. That's helpful. So pricing has gone up. And despite the fact that pricing has gone up, we're seeing significant improvement in sales. And I guess the question leads to the next obvious one, which is has underwriting changed. And ultimately, what I'm interested in knowing -- And Kevin Strain, I guess, this is the question for you is as you inherit this company, how do I know that the CAD $473 million of sales is a good thing in the sense that we're now living with COVID-19 that's here forever, and we could end up having higher mortality later on that you're going to pay for. So has underwriting changed? Are you asking people if they're vaccinated? Are you changing pricing because of vaccination rates? Most actuaries that I talk to tell me it's too early to know much about COVID-19, but we're plowing ahead with a lot of sales anyway. So I guess the -- ultimately, the question is, Kevin, why are you comfortable with so much life insurance sales being put out there and yet we don't know enough about COVID-19 and all of its variants and the possible impacts later on could be very bad for your business.

Kevin Strain - *Sun Life - President & Director*

I'll let Kevin Morrissey jump in on this as well, Darko. But you're aware we use -- we do use a significant amount of reinsurance in this business as well. So we do work with the reinsurers in terms of how we look at underwriting, how we look at risk, how we think about risk. Kevin can talk a little bit more about that. But there's a number of factors that you were seeing in the quarter that I just want to summarize again, right?

Like remember, the previous quarter was really the first quarter of COVID, and it was hard for our agents to get out and they hadn't yet pivoted to the new tools that were introduced. In fact, in a lot of the jurisdictions licensing wasn't approved yet for electronic -- sorry, I should say electronic signatures weren't yet approved yet by the regulator. So you've had a very big shift in the quarter-over-quarter, right? Q2 last year, newly into COVID. Q2 this year starting to come out of COVID in some jurisdictions with improved tools, and also we've been investing in distribution during the pandemic, and Leo talked about the addition of ACB and some of those types of things. So I think there's a combination of things. But on the risk side, I would just again point out, you've seen our mortality experience coming through COVID. We talked about the use of more analytics, more data, different ways of thinking about risk, and we've done that in partnership often with reinsurers. So I don't know, Kevin Morrissey, if you want to add anything on mortality risk?

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

Yes. Thanks, Kevin. So Darko, I maybe just add a bit to that. So we are paying, of course, very close attention to the pandemic and how it progresses in all the different geographies. So we're paying close attention to the risks, the trends, with focus on the underwriting and our pricing will be quite responsive as well. But your question is a good one about the risk we're writing now. And I think I would point to our -- really the benefit of diversification across our product portfolios. We really benefit from geographic diversification. So we sell in a number of different markets.

And as you can see in the ebbs and flows of the pandemic across the world, we certainly had that balance out with our global business profile. Also the insurance and annuity diversification, so we're a big writer of tailed annuities, which have the opposite exposure as a result of the pandemic. And we certainly see that in our results as well, that great diversification across the different product types. So I think that broad diversification across those dimensions help us feel really good about the risk we're writing today.

Darko Mihelic - *RBC Capital Markets, Research Division - MD & Equity Analyst*

Kevin, is it fair to say that for every dollar of mortality risk you put on, you're putting on a dollar of longevity risk? Or is it not quite that balanced?

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

It's not quite exactly balanced, but I will tell you, we have a longer-term strategy to have that risk profile quite well balanced, and we're looking at getting that balance across the enterprise, but also across different jurisdictions as well. So it's very much in our mind to have that longer-term balance in place.

Operator

Our next question comes from the line of Nigel D'Souza with Veritas Investment Research.

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

I'll try to keep it brief, since you're over time here. I wanted to follow up on individual insurance sales in Asia. And there's a fair bit of colour already provided on this. But when I look at it on a sequential basis, your individual insurance sales are down across essentially all the regions except for Vietnam. And I'm trying to understand how much of that is just quarter noise like quarter volatility and seasonality and how much of that is related to COVID-19 and recent mobility restrictions and lockdowns. Leo mentioned that you haven't seen case counts rise in Hong Kong, but individual insurance sales also down sequentially there. And I know it's a bit hard to predict, but you have a sense of, at least in the third quarter, how your individual insurance sales in Asia are trending? And do you think it's going to drift lower in the short term with some mobility restrictions that are being rolled?

Kevin Strain - *Sun Life - President & Director*

Nigel, it's Kevin.

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

Nigel...

Kevin Strain - *Sun Life - President & Director*

Go ahead. Go ahead, Leo. Sorry.

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

Okay. Nigel, it's Leo. Thank you for your question. Regarding the first part of your question around sequential sales, you're right that in Local Markets on a sequential basis, the markets were down other than for Vietnam. And there's really 2 factors that are at play here. The first one is that, as you noted, Southeast Asia really saw a resurgence in COVID cases and in particular, the delta variant and all of that impacted sales across the region.

And then the other factor that you're seeing is India sales are down, and that is a seasonal pattern. Some of that is also the COVID cases in India, as you know, there was a strong wave, but some of that is seasonality in that our India business has a fiscal year ending at the end of March. And as a result, their -- our Q1, but their Q4 is their strongest quarter of the year, every year. So there's some seasonality in India, and then an overlay of the impact of the most recent COVID wave across the other markets.

In terms of sales going forward, it is a little bit unpredictable at this point in time and that we don't quite know where things are going with the handling of the increase in cases across the region. As I discussed a little bit earlier, we are currently at peak levels of COVID cases and COVID deaths in the broad population in markets like Indonesia and Malaysia. And in those types of situations, you've got countries with very low vaccination rates at this point in time.

The governments are taking some quite strong actions in terms of movement restriction. They are, for example, closing bank branches, which obviously affects our bancassurance business in places like Malaysia and Vietnam notably. So we do see some uncertainty there in terms of the market. And then offsetting that is what I talked about earlier, which is increased distribution capacity and strong enablement of our advisers for non-face-to-face and digital sales, which should dampen some of that impact. But nonetheless, there is material uncertainty there, Nigel.

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

Okay. That's really useful colour. And if I could just quickly follow up on another point you brought up earlier on mortality versus longevity. Do you have any colour on the geographic breakdown of that mix exposure? Would it be fair to say that the longevity offset is more prevalent in North America and less prevalent or less substantial than Asia? Is that the way to think about it? Or how should we think about it?

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

Nigel, it's Kevin Morrissey. Maybe I'll take that one. I think when you're looking at that mix of business, predominantly, the longevity risk that we're writing would be in Canada today. We also have quite a large business in the U.K. So that would be kind of predominantly where you'd see the longevity exposures on our books today.

Operator

Our last question comes from the line of Scott Chan with Canaccord Genuity.

Scott Chan - *Canaccord Genuity Corp., Research Division - Director of Research of Financials & Financial Services Analyst*

Dean, congrats on all your achievements at Sun Life and best of luck in retirement. I just have 1 follow-up question for Mike at MFS. You talked about the redemptions in the quarter, but I think what's more maybe concerning is the gross inflows that we see. I saw a total in the quarter it was down 20% quarter-over-quarter and 25% year-over-year on what was a very strong Q2 flows globally from what we can tell. Is it -- I also noticed your medium-term fund performance slipped a little bit, but I just wanted to see any colour on some of the gross flows that seemed very suppressed this quarter.

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

Scott, thanks for the question. It's Mike. I think year-over-year comparisons are a little tough in that last year was such an outsized year. We had sales up 40% last year. There was incredible movement in the second quarter. Sort of the opposite of what I was talking about earlier, where at market highs, money comes out of equities into fixed income and sort of was the opposite last year. We saw money come out of fixed into equity, and we were well positioned for that. So I think last year is a tough year to comp off of.

When you look at Q2 versus Q1 and you look at active fund sales in the U.S. industry this year, our flows were in line with what happened in the active industry. So the active industry saw flows come down in 2Q from [Q1] (corrected by the company after the call) and I think some of that is related to market being at highs and people not allocating as market continues to go up. Interest rates are relatively low. I think people are sitting on their hands some. So our flows look very similar. If you look at U.S. retail flows, very similar to what happened in the industry Q2 versus Q1.

Operator

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

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

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 by tomorrow morning. Before I end the call, I would also like to congratulate Dean on his successful tenure at Sun Life. Dean, we wish you all the best in your retirement. Thank you, and have a good day.

Operator

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