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Q3 2023 Sun Life Financial Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Sun Life Financial Q3 2023 Conference Call. My name is [Duluem], and I'll be your conference operator today. (Operator Instructions)

The host of the call is David Garg, Senior Vice President, Capital Management and Investor Relations. Please go ahead, Mr. Garg.

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

Thank you, and good morning, everyone. Welcome to Sun Life's Earnings Call for the Third Quarter of 2023. Our earnings release and the slides for today's call are available on the Investor Relations section of our website at sunlife.com.

We will begin today's call with opening remarks from Kevin Strain, President and Chief Executive Officer. Following Kevin, Manjit Singh, Executive Vice President and Chief Financial Officer, will present the financial results for the quarter. After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management are also available to answer your questions this morning.

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 will now turn things over to Kevin.

Kevin Strain ***Sun Life - President, CEO & Director***

Thanks, David, and good morning, everyone. Turning to Slide 4, we delivered good performance during the quarter, reflecting our diversified business mix, our focus on execution and the continued importance our clients put on health and financial security. We achieved solid underlying earnings for the quarter of $930 million, maintaining steady growth year-to-date. Our positive results this quarter are attributed to good performance in our Canadian group and wealth businesses, higher fee-related earnings in asset management and favourable growth in Asia's Individual Protection business.

Sun Life Canada achieved strong earnings this quarter, up 15% from the prior year, driven by strong investment results and improved disability experience. Sun Life Asia also had strong third quarter results driven by individual insurance sales, which were up 60% year-over-year. In Hong Kong, sales were 4x higher than the prior year and over 50% higher than the previous quarter, supported by strong performance across our distribution channels.

Earnings were down 19% from the prior year in our Sun Life U.S. business, largely due to lower dental results. This was driven by faster-than-expected state Medicaid redeterminations associated with the end of the public health emergency as well as continued investment in the Advantage Dental+ business.

Our total SLF assets under management now sit at $1.34 trillion, up 6% over last year. In our asset management pillar, MFS and SLC continue to perform well despite challenging market conditions. SLC Management fee-related earnings increased 17% driven by higher AUM, reflecting strong capital raising and deployment across the platform and the AAM acquisition.

MFS maintained healthy margins. Net outflows were driven by industry conditions. On a year-to-date basis, defined contribution sales at MFS were up 14% compared to the prior year due to strong placement on consultant advisor and recordkeeping platforms, driving approximately USD 3 billion in net inflows.

We maintained an underlying ROE of 17.7% this quarter, approaching our medium-term financial objective of 18% plus, reflecting our disciplined Capital Management and sustained emphasis on capital-light businesses.

Further, we maintain a strong capital position with a LICAT ratio of 147% for the quarter. We also announced a $0.03 increase to our quarterly common share dividend, and were active on our share buyback program, demonstrating our commitment to returning capital to shareholders.

Turning to Slide 5. Two years ago, we introduced our Client Impact Strategy focused on 6 key areas, including people and culture, financial discipline, digital leadership, distribution excellence, sustainability and a strong and trusted brand. All areas that we believe are critical to delivering on our purpose to help clients achieve lifetime financial security and live healthier lives.

Over the past few months, we've refreshed our strategy to highlight our focus on trusted brand and our core values: caring, authentic, bold, inspiring and impactful, and we link sustainability to our culture. Further, we sharpened the emphasis of our strategic imperatives to highlight the importance of deeper client relationships, thinking and acting more like a digital company, unleashing our talent and culture strategy and delivering value from our past M&A, all with the goal of realizing our ambition to be one of the best asset management and insurance companies in the world.

Turning to Slide 6. We continue to execute on our Client Impact Strategy as demonstrated by several key business initiatives delivered this quarter. Improving access to care and helping clients live healthier lives remains a top priority for us, and we are continuing to expand our health-oriented businesses in multiple markets.

This quarter, we were selected to move forward in the final stages of contract negotiations with the Government of Canada to be the administrator of the Canadian Dental Care Plan, which will provide access to dental care for Canadians in need. Through the plan, up to 9 million additional Canadians will have access to dental care. We are excited for the opportunity to expand our role in Canada's health ecosystem and to leverage the deep knowledge from our U.S. DentaQuest business to create a positive impact in our home market.

In the U.S., we established a preferred partnership with OptiMed to make specialty drugs more accessible and affordable for our stop-loss members. The new program will improve how specialty drugs are administered for members while also managing rising health care costs.

We are also continuing to make it easier for clients to access care and benefits through digital channels. In October, we completed the acquisition of Dialogue, Canada's leading virtual health and wellness provider. Dialogue provides access to quality, high-touch care to 50,000 organizations, representing nearly 2.8 million clients in Canada and internationally. Dialogue will play a key role in delivering on our purpose for clients.

As an example, where Dialogue is having an impact beyond Canada, last week, we launched the Sun Life Health 360 app in the U.S., a digital front door to health and wellness support and resources for stop-loss members, including direct access to Health Navigator powered by PinnacleCare advisors. The app was developed by Dialogue in collaboration with the U.S. and offers our U.S. members the chance to enable access to valuable tools to manage and improve their health.

In Asia, we increased our strategic investment in Bowtie, Hong Kong's first virtual insurer with a leading market share of approximately 30% in Hong Kong's direct sales channel. Together, Sun Life and Bowtie are committed to making insurance affordable and accessible in our Asia markets.

Across the organization, we are doing more to think and act like a digital company. One example of this is that we are experimenting with several generative AI projects, including in our contact centres, and we were one of the first to pilot Amazon Bedrock on AWS. We are focused on opportunities to enhance our client impact through technologies like Gen AI.

We're expanding our distribution capabilities through strategic partnerships and investments to deepen our impact. This quarter marked the start of our 15-year exclusive bancassurance partnership with Dah Sing Bank in Hong Kong, which had a strong start from a sales perspective. In October, SLC Management entered into a strategic partnership with Scotiabank to distribute our alternative investment capabilities to the Canadian retail market through Scotia Global Wealth Management. Through this partnership, Canadian high-net-worth investors will gain access to our world-class alternative investment capabilities. This strategic partnership, coupled with our recent acquisition of Advisors Asset Management, or AAM, positions us well to meet the growing demand for alternative assets through high-net-worth investors.

We continue to strengthen distribution across Sun Life, our affiliates and strategic partnerships to meet the investment needs of our clients. We also continue to support the communities in which we operate. In Canada, we expanded our partnership with Spirit North, a national charitable organization, committing $1 million in funding over 3 years to deliver physical health programs and address health inequities in underserved indigenous communities. We know this partnership will not only make a positive impact on the physical health of youth, but also have a tremendous impact on their emotional and mental health too.

This quarter, SLC Management provided another round of funding against its $110 million commitment to support 24 First Nation communities with connections to the provincial and electricity grid, to improve the quality of life of the residents and eliminate thousands of tons of annual greenhouse gas emissions.

Finally, I want to discuss a new role we have recently created. Over the past few years, we've seen the success and importance of strategic partnerships on business growth and on delivering on our purpose. We are also seeing more opportunities to leverage partnerships for all of our business lines globally. To that end, we've created the new role of Vice Chair of Strategic Partnerships reporting to me to leverage the global partnerships opportunities that are in front of us.

I have asked Ingrid Johnson to take on this role. Ingrid's wealth of experience in global relationships and her relationship management skills, her work in supporting several Asia strategic partnerships, combined with her many years of P&L leadership makes her an ideal leader to take on this executive role.

In the interim, Chris Wei, Manjit and I, along with Ingrid's support, will provide guidance and leadership to our team in Asia as I conduct a search for the new President of Asia, which I expect to announce over the next month or so.

Despite a challenging external environment, our diversified mix of business continues to perform well, driven by our strategy and our people and culture. We remain focused on our purpose and executing our strategy, and this focus has served us well as we delivered positive results in the quarter.

With that, I'll now turn the call over to Manjit.

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

Thank you, Kevin, and good morning, everyone. Let's begin on Slide 8, which provides an overview of our third quarter results.

We are pleased with our business results this quarter. Underlying net income of $930 million and underlying earnings per share of $1.59 were in line with prior year results, excluding the impact from the sale of the U.K. business. Underlying ROE of 17.7% was strong, underpinned by our diverse and attractive businesses in Wealth and Asset Management, Group Health & Protection and Individual Protection.

Wealth And asset Management underlying earnings comprised 44% of total Q3 underlying earnings and were up 9% from the prior year. This was driven by higher investment income, reflecting volume growth and higher yields as well as an increase in fee-related earnings in our Asset Management businesses.

Group Health & Protection businesses comprised 27% of Q3 underlying earnings and grew 1% year-over-year. Strong revenue growth across all group businesses and better disability experience in Canada was largely offset by less favourable experience in the U.S.

Individual protection earnings comprised 29% of underlying earnings and declined 3% year-over-year, driven by the sale of our U.K. business and lower investment results from the U.S., largely offset by strong business growth in Asia. New business CSM of $370 million more than doubled from the prior year, reflecting strong sales results in Hong Kong, International High-Net-Worth and Canada. Total CSM grew 11% year-over-year, primarily driven by organic CSM growth, reflecting strong sales results.

Reported net income for the quarter was $871 million, up from $111 million in the prior year. The difference between underlying and reported earnings this quarter of $59 million largely reflects the top-up in the SLC put liability, DentaQuest integration costs and amortization of intangibles, partially offset by favourable market-related impacts and positive ACMA. The favourable market-related impact was primarily driven by interest rates, partially offset by unfavourable real estate experience. The favourable impact from interest rates this quarter was largely due to a less inverted yield curve.

As we discussed last quarter, given our current positioning, as the yield curve normalizes, we expect to see favourable industry-related market impacts in reported net income. Real estate experience reflects a relatively flat return in the current quarter versus our long-term expectations of approximately 2% per quarter. We are long-term investors in real estate and continue to view this asset class as a key component of our diversified investment portfolio. Over the last 10 years, our North American real estate portfolio has generated annualized total returns of over 9%, well above our current long-term expectations.

In Q3, we also conducted our annual actuarial review of assumptions and method changes. This review resulted in relatively neutral impacts of positive $35 million to reported net income and negative $43 million pretax to CSM. Our balance sheet and capital position remains strong. This provides us with financial flexibility to execute on attractive business opportunities and resilience to absorb potential impacts from volatile market conditions.

SLF LICAT of 147% declined 1 point from the prior quarter as strong organic capital generation was offset by capital deployments. Capital deployments in the quarter led to a 4-point decline in LICAT, driven by net sub-debt redemption of $500 million, repurchase of 2.8 million shares and the close of the Dah Sing bancassurance agreement. HoldCo cash remained strong at $1.4 billion, and our leverage ratio remains low at 22%. We continue to expect strong capital generation of 25% to 30% of underlying earnings over the medium term after payment of common share dividends and investments in organic business growth.

Now let's turn to our business group performance starting on Slide 10 with MFS. MFS underlying net income of USD 207 million was down 2% from the prior year as an increase in variable compensation was partially offset by higher ANA and increased investment income. Reported net income of USD 212 million was down 12% year-over-year, driven by the fair value change in shares owned by MFS management. AUM of $556 billion was down 6% from the prior quarter driven by declines in global equity markets and net outflows. And pretax net operating margin of 41% was in line with the prior year.

Retail net outflows were USD 3.7 billion --and institutional outflows were $5.6 billion, driven by the continued impact of higher interest rates and active management flows. MFS continues to outperform its peers with lower relative net outflows.

Turning to Slide 11. SLC Management generated fee-related earnings of $68 million, up 17% year-over-year. The increase reflects good capital raising and deployment of capital into fee-earning AUM over the past year as well as the AAM acquisition. Underlying net income of $53 million was up from $25 million last year, driven by higher fee-related earnings, a lower tax rate and the non-recurrence of one-time expenses.

Reported net loss at SLC Management was $16 million, primarily driven by an increase in the liabilities to buy up the remaining ownership in SLC affiliates. We undertake a detailed review of the estimated liabilities in the third quarter of the year, and this quarter's results reflect a top up of $42 million. Capital raising of $3.2 billion increased over the prior quarter, driven by strong demand for public debt at SLC Fixed Income and for real estate debt at BGO. Total AUM of $219 billion was up 5% year-over-year. This includes $21 billion that is not yet earning fees. Once invested, these assets are expected to generate annualized fee revenue of more than $180 million.

Turning to Slide 12. Canada underlying net income of $338 million was driven by strong disability experience and higher investment income. Reported net income of $365 million was up year-over-year due to favourable market-related impacts. Wealth and Asset Management underlying earnings were up 14% on increased investment income from higher volumes and yield.

Group Health & Protection underlying earnings increased 33% driven by favourable disability experience reflecting higher margins and lower claims as we continue to realize the benefits of our management and pricing actions. Individual Protection was modestly lower year-over-year on lower investment contribution. Both group and individual businesses posted strong sales growth. Group sales were up 4% on higher health sales, while individual sales were up 24% due to higher par life sales.

Turning to Slide 13. U.S. underlying net income of USD 140 million was down 19% from last year while reported net income of USD 105 million was up 9% year-over-year. Group Health & Protection underlying earnings were down year-over-year as strong revenue growth was more than offset by less favourable experience. Dental results this quarter included the impact from Medicaid redeterminations and start-up costs from the expansion of Advantage Dental+ practices. The industry has anticipated the wind-down of the public health emergency that was established during COVID and the related impact from Medicaid redeterminations.

While the pace of roll offs from redeterminations have been faster than our assumptions, we expect the total impact on membership and revenues to remain largely in line with our expectations. For Q3, this led to lower volumes and higher loss and expense ratios.

Looking forward, we expect the incremental revenues from our sales pipeline to more than offset the impacts of the Medicaid redetermination process. Therefore, we expect good revenue growth in 2024. We remain very pleased with the performance of the DentaQuest acquisition. We are a leading player in the industry, have strong business momentum, are on track with our integration milestones and are confident that we will achieve our synergy targets.

The group benefits business had strong revenue growth driven by solid premium growth, higher fee income and good margins. This is offset by less favourable morbidity experience. U.S. morbidity experience in the quarter remained favourable, reflecting strong group disability and stop-loss results, partially offset by unfavourable dental experience.

Individual protection results declined year-over-year, reflecting lower investment contribution this quarter. U.S. group sales of $179 million were down 36% year-over-year, reflecting lower dental Medicaid sales, which are lumpy in nature as they are linked with the timing of government contracts, partially offset by higher commercial dental sales.

Slide 14 outlines Asia's results for the quarter. Underlying net income of $166 million was up 7% year-over-year on a constant currency basis. Reported net income of $211 million was well above underlying income, largely reflecting favourable interest-related market impacts and positive ACMA. New business CSM for Asia was very strong at $238 million, up 193% from the prior year. Individual Protection earnings were up 25% year-over-year on a constant currency basis reflecting business growth from strong sales over the past year, improved mortality and contribution from our joint ventures.

Individual Protection sales were up 57%, primarily driven by strong sales growth in Hong Kong and High-Net-Worth. Hong Kong sales also benefited from the strong start of our bancassurance agreement with Dah Sing.

In closing, we are pleased with the results this quarter. We maintained strong sales momentum in Individual Protection. We generated very strong new business CSM and total CSM is up 11% year-over-year. Group results in both Canada and the U.S. continue to benefit from our leading capabilities and proactive management actions, which drove favourable experience. Our Asset Management businesses continue to deliver good long-term investment performance and are well positioned for growth as markets normalize. Our capital position is strong, and we continue to generate peer-leading ROE.

With that, I'll turn the call back to David for Q&A.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And I show our first question comes from the line of Tom MacKinnon from BMO Capital.

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

First question is just with respect to the LICAT being better than anticipated, and you mentioned 4 points that would have hurt it from net debt and some other deployments, buybacks, Dah Sing. So if -- but the LICAT was actually only down 1 point quarter-over-quarter. So are we to sort of infer that there could have been at least you mentioned strong capital generation, does it look like it's probably in the area of 3 points or so of capital -- LICAT capital that was attributable capital being generated in the quarter? And if so, it seems to be a little bit better than your 25% to 30% kind of medium-term target? And I have a follow-up.

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

Tom, it's Manjit. So you're right. As I mentioned in my prepared remarks, our general view is that over the medium term, we expect to generate 25% to 30% of underlying earnings as organic capital. And that really reflects the portfolio of attractive capital-light businesses that we've built over time.

Now that amount will bump around quarter-over-quarter depending on things like new levels of business as well as market conditions. And you're correct, for this -- for the current quarter, we had about 3 LICAT points or approximately $600 million of organic capital generation in the quarter, and that was above our target that I mentioned previously. And that was really driven by good underlying earnings in Group Health & Protection, Asia Individual Protection, solid asset management earnings as well as strong new business CSM. So overall, we feel very good about the capital generation this quarter.

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

And that $600 million is before payment of the common dividend, correct then?

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

Yes.

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

Yes. Okay. And then just as a follow-up for Kevin. I think you -- in your prepared remarks, Kevin, you mentioned the changes in management with respect to Ingrid's responsibilities. Did I hear that correctly? And I'm just wondering, Asia is on fire here in terms of some of your great sales and CSM growth and why make a change in management there?

Kevin Strain ***Sun Life - President, CEO & Director***

You did hear it correctly. And Tom, we increasingly see partnerships being an important part of what we're trying to do globally and creating those connections, and Ingrid is well suited for that. Asia is on fire, and our intention is to keep it on fire and to keep it moving in the right direction.

You would have seen that -- I mentioned that Chris, Manjit and I will be leaning into Asia over the next few weeks as we get ready to appoint the successor to Ingrid there. Chris is based in Singapore. So he's going to be looking after the ASEAN countries. He also sits on our joint venture Board in China. So he's going to be leaning into China. Manjit is on our joint venture board in India and taking responsibility for India in the interim.

And then I'm -- as you know, I spent many years in Asia, not just running Asia, but as CFO and now as CEO, and I'll be leaning into our Hubs business, which is Hong Kong, Singapore, Bermuda as well as the regional office, and we're working with Ingrid on that.

So I don't think that this is going to slow us down at all. In fact, it's about accelerating the company's growth through global partnerships, but also in Asia.

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

Sorry, Tom, just on your previous question, the $600 million was net of dividends, just to confirm that.

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

Yes. Yes, that's right. Yes, correct. Yes. So if we want to look at before payment of the dividend, it would have been higher, I assume then.

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

Correct. Exactly right.

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

Okay. Great. And then sorry, just -- is the look internal or external in terms of someone to take over Ingrid?

Kevin Strain ***Sun Life - President, CEO & Director***

Yes. For all of our senior roles, we do succession planning, and we have a list of both internal and external candidates. And as I said, I expect to have an announcement in the next month or so. There is an advantage to Asia from an internal candidate because knowing Sun Life and understanding our footprint and understanding Asia, is an advantage, but we always look at both internal and external and try to attract the best candidate. You should hear from us in about a month or so.

Operator

And I show our next question comes from the line of Gabriel Dechaine from National Bank Financial.

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

I wanted to revisit this dental -- the redeterminations of Medicaid recipients. And you said a couple of things. One, that the rolloff is taking place at a faster pace than you expected. And two, as that's happening, it's causing higher expenses, I guess, as you're processing those or something? Maybe delve into a bit more of what's behind that. And why you think things will maybe stabilize or get better? Because I'm just looking at the sales number, you're averaging over $100 million over the past 4 quarters and then it just fell off a cliff to $4 million. I'm wondering how that's expected to rebound and what the next few quarters could look like for profitability in this business if you can?

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

Sure. It's Dan. Let me kind of walk through the whole story of the redeterminations with the end of the public health emergency. And just as a reminder, during COVID, the federal government instituted a public health emergency and one of the impacts of that was that people could not be disenrolled from Medicaid during that period of time. The public health emergency ended on May 11, and that freed up the states who have the responsibility for enrolment to recertify or redetermine who is eligible.

We and most of the industry have estimated about 12% of existing Medicaid membership would roll off as a result of that process over a 24-month period. Our latest estimate, which is consistent with industry estimates is for about 13.5% of membership to roll off, so pretty close to that original, but at a much faster pace, roughly over a 12- or 13-month period.

In fact, we think the redeterminations will be complete or largely complete by June 1 of next year. So it's largely the acceleration that has been the difference here. And so far, as of October, about half of those redeterminations we believe, have occurred. So we're about halfway through that process. But we have about three more quarters where that will be happening. And...

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

So that's. No, go ahead.

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

No, no. Go ahead.

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

No. No. I got my second question. I got to hold off on that. But I...

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

Okay. Well, you had asked us, so what's the outlook, especially considering sales and also what the impact was on other -- on loss ratios and expense ratios.

So it's worth commenting as that membership has come off, that just gives us a higher expense ratio, not necessarily higher expenses. There are some higher expenses in the quarter that are related to investments we've been making in the new Advantage Dental+ practices. But since the membership comes off or is coming off more quickly, the expenses don't come off quite as quickly.

We also have seen some modest loss ratio pressure, not surprisingly, the members who come off through the redeterminations tend to be lower utilizing members than members who are staying on, but that's obviously a temporary impact.

Just in terms of looking forward, a couple of important things to note here. Since the acquisition, which was June of last year, the Dental business has sold about $600 million in new business. About $400 million of that is from 7 large Medicare and Medicaid sales and none of that premium is yet on the books. That premium will come on the books in 2024. It's anticipated during the first 3 quarters of 2024.

And that $400 million in premium is larger than the amount of premium that we expect to be associated with all of the disenrollment. So we do have a bit of a timing challenge obviously, with the disenrollment happening more quickly than the new business coming on and more quickly than anticipated. So there could be some challenge around that over the next 3 quarters. But at the end of that transition, the business should actually be larger than it was. And in addition, there's a very large pipeline of opportunities beyond the sales that have already occurred.

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

Okay. That's very illustrative, I guess. And I guess, the next few quarters, you'll see maybe similar to this quarter, but then gradually maybe Q2, Q3 next year starting to go in the other direction in terms of net sales and premiums?

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

Well, in terms of premiums, yes, the next 3 quarters, we would see the other half of the membership that's associated with the redetermination come off, but we would also see that $400 million in new business start to come on especially, first quarter of next year.

In addition, it's also worth noting that the third quarter of any year is the worst quarter for seasonality. In other words, the highest utilization quarter largely related to kids getting dental care right before school starts. That's been a very long-standing pattern. So -- and there were also some onetime accounting true-ups and contractual true-ups in the quarter. So we would expect those things not to recur. So from a revenue perspective, I would agree with your comment. From an earnings perspective, we would hope that the next quarters would be better.

Kevin Strain ***Sun Life - President, CEO & Director***

Gabe, it's Kevin. I might just add that nothing has changed our thesis on the DentaQuest acquisition. We knew that these -- the public health emergency was going to end and there was -- these people were going to be falling off of the membership.

In fact, as Dan said, the sales is ahead. So if we think about our M&A thesis, we're -- nothing has changed our thought process on that. In fact, we think it could be a little bit better, and the integration continues to go well. So yes, you're seeing some lumpiness in the quarter, but we still expect DentaQuest to perform as we expected it to.

Operator

And I show our next question comes from the line of Meny Grauman from Scotiabank.

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

Kevin, I wanted to follow up on your discussion of partnerships and it sounds like the thesis there has changed a little bit for the positive and maybe sharpened. So I'm just hoping you could provide a little bit more insight in terms of that, whether my impression is correct? And then a follow-up on that.

Kevin Strain ***Sun Life - President, CEO & Director***

Well, Meny, we have a lot of partners around the world that linked into our joint venture partners, which are significant in India and China, our bancassurance relationships, our relationships with different banks.

We also have a few opportunities that we continue to sort of push on and look at in terms of partnerships. And having a senior person who thinks globally about that, we think is going to be a benefit to our strategy. And if you think about how quickly the world is changing, in different areas, having these partnerships and understanding how to leverage them, we see being important to the strategy and Ingrid is a great fit for that, as I said in my opening remarks.

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

And is this a signal in terms of capital deployment in this specific area? Should we expect to see more there? Is there a change that you're signalling in that?

Kevin Strain ***Sun Life - President, CEO & Director***

I wouldn't take it as a signal of capital deployment. I would take it as a signal of us leveraging the relationships we have and the opportunities that we see in front of us.

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

Got it. And then if I could just ask a question on Asia just in terms of Hong Kong, specifically, very strong sales. And I'm just wondering if you can maybe disaggregate how much of that is the contribution from the new bancassurance deal? How much of that is from the MCV market specifically?

Kevin Strain ***Sun Life - President, CEO & Director***

Yes. Meny, Ingrid's on the line, so I'm going to let her answer the Hong Kong question.

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

Thanks, Kevin. Thanks, Meny. We're delighted with Hong Kong. It really was a standout quarter. So sales strongly up fourfold and interestingly, strongly outpacing the market in the first 6 months.

The factors are really twofold. So one is externally, with the border reopening with Mainland China. There's significant demand and strong momentum generally, but the fact that we've outpaced the market shows that we also had significant internal readiness that we've been focusing on over the last few years, and a number of those relate to our client value proposition that we've invested in.

Firstly, as you point out around our distribution. So we've emphasized all aspects of distribution. So it's around our broker relationships that we've broadened and deepened, agency teams, including focused on MCI. Last call, I mentioned a beautiful client centre that we've opened in Tsim Sha Tsui. We're seeing a lot of activity through that. And then Dah Sing is our first quarter where we've activated our exclusive banca relationship, and we're seeing strong sales through that, which we haven't disclosed separately. So that's on the distribution.

On products, we continue to be leaders in innovation and actually incorporating some of the ESG concepts so that we're relevant for how important it is to address the climate aspects.

And then the third part and also important in a brand-conscious Asia is investing in our brand, and we were excited in August that we were in the top 5 of brand movers in Hong Kong alongside a number of leading brands, whether it's in mobile, or you've had other competitors. So that's part of the reason why we are shifting gear in Asia. And so to give you a sense, pre-pandemic, MCI was around 10% of the overall sales in Hong Kong. Today, we're standing at roughly 30%. So that's a threefold increase.

Kevin Strain ***Sun Life - President, CEO & Director***

I might just -- I may just reiterate that in Hong Kong, you saw a combination, as Ingrid mentioned, of our investments in agency and growth there. Our investment in Dah Sing, and it's off to a great start. It started selling on July 1.

A big bulk of the sales were through the broker channel, and that's been driven by Mainland Chinese visitors, but also leverages our knowledge of the high-net-worth business out of Bermuda. So there's a combination of things that are happening in Hong Kong that are driving those good sales. And I think that's a good thing to see that balanced growth across agency, brokerage and our new bancassurance relationship. So we're seeing it in all three areas in Hong Kong. The team is doing a great job there.

Operator

And I show our next question comes from the line of Mario Mendonca from TD Securities.

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

Dan, could you help me understand the redetermination a little better. I understand where -- how it can affect your premium growth in Dental. In fact, that's well described in your supplement and in your MD&A. I'm not sure I understand how the redetermination impacts experience gains in this segment, which I think you offered that the redetermination was one of the factors that drove experience gains to be down noticeably on a year-over-year basis. So help me understand that dynamic a little better -- the experience line in the context of the redetermination?

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

Sure. And hopefully, this will answer it. The loss ratio does experience some pressure from the redeterminations because the people who are being disenrolled tend to be lower utilizers than the people who stay on the books.

What happened during COVID was a lot of people who might even have had gotten other coverage through getting employment remained on the books because nobody could be disenrolled. So we did anticipate and we are seeing some modest loss ratio impact from the disenrollment of those lower utilizing members. And then, of course, there's also just fewer members, which puts a little pressure on the expense ratio as well.

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

So applying your outlook for the next few quarters then. And I appreciate that there are a lot of moving parts here, plenty of things could change. But just focusing on this Medicaid redetermination, you'd expect the experience to be a little modest experience gains, maybe even some modest losses relative to what you've had in the past because of this -- that I'm referring to. And then would you then expect experience to improve again sometime in 2024 once the redetermination has run its course?

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

Yes. So a couple of key factors there. One is we built some impact on the loss ratio into the experience plan. So we would only see pressure on the experience gains if that impact was bigger than what we anticipated. And so we think we've built in the right amount. But of course, we could always be a little bit off there.

Another very important point is 80% of our Medicaid contracts reprice or are available for renegotiation of pricing in one way or another during the next 12 months. Generally, the states have been very cooperative, wanting to make sure that the loss ratios on this business stay within a target range. So if they see that the loss ratio is moving in the wrong direction, generally, they've been very amenable to some renegotiation there.

But in many ways, the loss ratio is a short-term commitment in these contracts because they do tend to get reset. Right now, we don't think that's a big issue. But if it did become an issue, we would have an opportunity to address that. And so you would expect to see as this process completes and the business resets, you would also expect to see the loss ratio revert to historical norms.

Operator

And I show our next question comes from the line of Doug Young from Desjardins.

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

Just, Dan, quickly excluding the U.S. redetermination, so just forget about that, what was Dental experience in the quarter? Was it in line with expectations? Or was it adverse or better than expected? Just trying to get a sense of like excluding this noise, what the underlying experience trend has been.

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

Yes. So there were several things that happened all at once in this quarter. If you compare either to the same quarter last year or even to the prior quarter, it's about the -- those were similar quarters. The variance is about half these factors related to the end of the public health emergency, the redetermination. So mostly revenue and then some, as I've mentioned, some loss ratio pressure.

The other half are some accounting and contractual true-ups. We -- for example, we aligned some accounting practices post-acquisition. There is the seasonality impact. The third quarter is always the worst for seasonality or the highest for utilization. And then there were some unique investments in the Advantage Dental+ business; we've been opening new practices, especially in Texas. So half of it was in those categories and half is related to the public health emergency.

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

Okay. And so there wasn't anything from a loss ratio perspective. It seems like it's just more normal course outside of the redetermination.

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

Yes. I mean that's what -- obviously, some of those things are nonrecurring, which is good news. But yes, there was nothing fundamental about the business. In fact, as Kevin mentioned, we remain very optimistic about the Dental business. As I mentioned, there's another $400 million of business sold that's yet to go on the books, a great pipeline. We're meeting or exceeding all of the integration synergy targets. The momentum with the business and the performance of the business is actually really strong and we would expect it to meet or exceed our acquisition expectations.

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

Okay. And then just a question on the ACMA, I guess, more Kevin Morrissey. But I just want to understand the lapse and the lapse impact on reported earnings, but also on the CSM and I guess you had -- can you talk a little bit about what drove this? And I guess the way I think of lapse is always, it typically goes through the CSM, but there was an earnings hit as well this quarter. And so I don't know if that was just because lapse was going through on businesses where there was no CSM? Just hoping to understand -- and what really drove the negative lapse?

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

Yes. Thanks for that question. Doug, this is Kevin Morrissey. You're right. For the general model method, where we have individual wealth and protection products, normally changes in lapse assumptions do go through the CSM. So that's kind of the normal place you would see them.

However, we did have some impacts related to a block in Asia, the international business, where we updated some of the financial risk assumptions. It was related to lapse, but it was specific to the yield curve inversion. And because financial risk assumptions on the GMM method, that does go through net income. So it's a bit of a unique circumstance where -- when you have these types of products, normally, it goes through CSM, as you said, except where the CSM has been depleted. That is not the case. In this case, it's really specific to that financial risk assumption that was updated that, that was part of the overall lapse assumption set.

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

That's clear. And then just on the lapse charge that went through the CSM, can you unpack a bit about what were the main drivers there?

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

Yes, sure. So on the CSM, the lapse impact, as noted, was significantly negative. There was really 2 sources, and we saw the reductions in CSM, both in Canada and Asia. In Canada, there were 2 product groups that were impacted - there was term products where renewals were lower than expected. And in some of the lapse -- supported Universal Life products, the lapses were lower than expected as well. So we had some reductions in CSM there from Canada.

And in Asia, we updated the Vietnamese lapse assumption for that business. You've heard us talk about low persistency as part of our ACMA review this year. We fully reflected the current level of experience in our ACMA update despite the fact we are taking actions to improve persistency, we felt it was prudent to fully reflect our current level of first year lapses in the ACMA update. And so there was a reduction to the CSM in Asia from that component as well.

Operator

And I show our next question comes from the line of Paul Holden from CIBC.

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

First question is related to the real estate experience during the quarter. Wondering if you can give us an update on how much you've changed cap rates sort of on average across the board year-to-date? And if you're expecting potentially more movement going forward on real estate valuations?

Randy Brown ***Sun Life - CIO***

Sure. Thank you for the question. Paul, it's Randy Brown. So we look at several measures when looking at changing valuations on real estate. So let me start kind of overall with the comment that the total return on the real estate portfolio was essentially flat this quarter. Valuations were down by less than 1% and largely offset by income. So the negative that you've seen, as Manjit mentioned, is the difference between the long-term expected return and the actual economic return on the quarter.

But as Manjit also said, our real estate portfolio has outperformed our long-term expectations and -- so we remain quite comfortable with the assumption.

So in terms of -- specifically on your question, we look at cap rates, but we also look at yields - cap rate being more of a spot measure and yield being more of a life of the property. And so we've seen 25 to 50 basis point increases in cap rates and 50 to 75 basis point increases in yields in the portfolio. So we have, frankly, fared better than the broader market because of the very significant repositioning that I had mentioned on prior calls. So we were well positioned for this type of market with significant overweight relative to the opportunity set in industrial and residential and much lower allocations to office and retail.

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

Got it. And then a question for Dan. Can you just help me, you may give us a little bit of an update or your thoughts around the upcoming pricing and negotiations for stop-loss in U.S. group benefits given it's been a pretty strong quarter for -- or quarter, strong year for margins, are you seeing increased competition or what I guess, really what is your view for 2024 pricing renegotiation?

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

Yes. Thank you. We're in the midst of the selling season for really all our products, but especially for stop loss, this is like the playoffs and the Super Bowl rolled into one. Most of the sales occur during the fourth quarter, and we're actually quite optimistic about the outlook.

We've been holding to our pricing. You've seen the loss ratio normalize back towards our pricing targets as we've signalled for quite a while that, that would happen. And we are seeing some intensified competition, which always seems to happen especially this time of year. But our team is performing quite well, and we're optimistic about sales results for the quarter, while holding to our pricing targets.

Operator

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

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

My first question was on the other expenses line, both in Canada and Asia. Noticed that expense line has picked up meaningfully year-to-date, and there was a step-up this quarter. Just wondering what's driving higher expenses in both those segments? Or if there's any outliers or nonrecurring items we should be aware of?

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

Nigel, it's Manjit. Overall, the corporate expenses other on a quarter-over-quarter basis are relatively flat. On a year-over-year basis, we have seen an increase, and there's a couple of factors that are driving that.

So the first one is just increase in sort of compensation, both relative to wage inflation, and also higher incentive comps in the 2 businesses that you mentioned, Canada and Asia, as we've talked about earlier, have had very strong results this quarter and for the year-to-date. And then as Kevin mentioned, as Ingrid mentioned, we're also continuing to invest in these businesses. So that's also reflected in there. But then as you've talked about, you've seen higher revenues related to those expenses.

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

Okay. That's helpful. And then the second question was on your actuarial review this quarter. And wondering if you could provide some colour on what experience since, prior to the pandemic was incorporated into your assumption versus long-term trends? And maybe a bit more on morbidity because I think you noted a favourable morbidity update in the U.S. and unfavourable morbidity in Canada. But -- and the experience this quarter was actually, I think, favourable in Canada and unfavourable in the U.S. So just wondering if you could unpack how much of experience has, has kind of been an input into those updates and what hasn't?

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

Thanks for that question, Nigel. It's Kevin Morrissey. So on the first one, the pandemic experience, so I would categorize it as saying we fully reflected all the pandemic experience in our valuation assumptions and our updates, and so that's really specific to each of the local jurisdictions. So we took a look at the experience, how relevant it is and whether it's appropriate or not to include it directly in the update.

So for example, where we had in some of our Annuity segments, some higher death rates spike up as part of the pandemic, we did not project that to continue going forward. In some of the Life Insurance businesses where it was fairly benign, we did incorporate that in the experience study and just became part of our regular update. So I would say it's fully reflected where appropriate. And again, we always take a very conservative bias on that, not wanting to be overly aggressive with regard to that.

Your second question around morbidity. Maybe I'll start by making a couple of comments. When we update our assumptions, we always include three different perspectives when we're setting our new assumptions. The first is the longer-term average of the historical performance, the second being the trend and the third, the future outlook. And so you mentioned morbidity specifically in Canada and the U.S., and that has been positive -- it's been positive in the quarter. And when we're looking at the update, as noted, there was strengthening -- some strengthening done in Canada.

I would describe it as fairly modest in the update this year. However, that does reflect the longer-term time horizon. So that's a 5-year historical average. And it won't necessarily link with a direct line with the experience in the last couple of quarters. So it's a much longer-term perspective on that.

That being said, the experience in Canada over the last 2 quarters has been positive. I'd say it was a bit elevated probably in this quarter for Canada, a bit higher than we would normally expect. But again, the trend line has been good. The experience update though is much longer term. So if we do have that, that short trend line continues, then we would expect to see favourable results going forward.

Operator

And I show our next question comes from the line of Lemar Persaud from Cormark.

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

I just want to close the loop on this medical or Medicaid redetermination. I guess, given that it was mentioned that over 50% of the redeterminations are in now, some of the new Medicaid sales coming in 2024 and Q3 being a seasonally high quarter for claims, would it be fair to suggest that this quarter was the trough for Dental earnings?

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

I think that's a reasonable comment. Of course, we can never know for sure, but I think that's the way we look at it, too, that there were some one-time events plus we're at -- in a sense, we've had a lot of the redeterminations without the new business yet coming on the books, which is really more of a timing issue.

I think in terms of thinking about looking at one quarter versus a longer period of time, year-to-date, our underlying net income is up 33% and sales are up 44%. And that may actually be a better indication of the way to look at things than just the stand-alone quarter, especially with some of these one-time events.

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

Okay. That's fair. And then just turning over to SLC, I guess you guys called out an unusually low tax rate. So maybe start on what drove that? What's the reasonable tax rate moving forward? And then beyond the tax rate, is this quarter's result an appropriate run rate for earnings moving forward?

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

It's Steve Peacher. Thanks for the question. I -- off the top of my head, I don't have -- I can't answer the kind of the good run rate tax rate question for you, but we can get back to you on that. It was around -- I would say that it certainly bolstered underlying net income for the quarter by $7 million, $8 million.

I would -- in terms of run rate earnings, I think if you look at -- if you look at the financial supplement where we -- where you see the quarterly results, management fees have been growing every quarter because AUM has been growing. And as Kevin mentioned in his comments, or Manjit did, we have a significant portion of our AUM is in commitments that where we've gotten commitments from investors, and we haven't yet invested the money, so we haven't started earning fees. That AUM that's been committed but not invested is around $21 billion. So we definitely think that the trend in earnings in both revenue and earnings is up. And as we -- and we think still are -- feel like we're on target to hit our Investor Day targets. So I would -- well, I would say this is a representative quarter, we think the trend in earnings and revenues are just going up.

Operator

And I show our next question comes from the line of Tom MacKinnon from BMO Capital.

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

Just on the Medicaid redetermination. What were the total net premiums annualized for that business when you -- just prior to that, I guess, that May 11 date kind of where do they sit now as well?

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

Yes, I don't have that off hand. What I can say is that Medicaid does represent more than 80% of the total revenue within the Dental business. And the -- you can also see if you look at the premium revenue for the quarter versus the prior quarter, some decline, and that would basically all be from the Medicaid business.

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

Okay. Yes. So if I take 80% of your total Dental net premiums annualized, and then I take 13% of that, and then I take that as a percentage of your total net premiums in both Group Benefits plus Dental, it's still less than 5% of your total net premiums.

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

And we can certainly follow -- we can follow up with some more specifics there. But yes, the 5% would be about the way to think about it. Just a caution, the membership numbers and the premiums are not exactly the same.

Operator

We have no further questions at this time. And I will turn things to Mr. Strain.

Kevin Strain ***Sun Life - President, CEO & Director***

Thank you, operator. I wanted to end the call by recognizing that Diwali celebrations began on Sunday in India and around the world. I want to take a moment to say Happy Diwali to our employees, our colleagues and partners around the world who are celebrating. Diwali celebrates the triumph of light over darkness, good over evil and the human ability to overcome whatever you are facing. At Sun Life, we celebrate that resilience.

Shush Deepavali, Happy Diwali. And with that, I'll turn the call back to David.

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

Thank you, Kevin. This concludes today's call. A replay of the call will be available on the Investor Relations section on our website. Thank you, and have a great day.