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PRESENTATION

Operator

Good morning, everyone. My name is Justin, and I will be your conference operator today. At this time, I would like to welcome everyone to Sun Life Financial Q4 2021 Financial Results Conference Call. (Operator Instructions) The host of the call is Yaniv Bitton, Vice President, Head of Investor Relations and Capital Markets. Please go ahead, Mr. Bitton.

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

Thank you, Justin, and good morning, everyone. Welcome to Sun Life's Earnings Call for the fourth 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 call with an overview of the fourth quarter and full year results from Kevin Strain, President and Chief Executive Officer. Following Kevin's remarks, Manjit Singh, Executive Vice President and Chief Financial Officer, will present the financial results for the quarter.

After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management will also be available to answer your questions this morning.

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

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

Thank you, Yaniv. Turning to Slide 4. We delivered solid fourth quarter results with reported net income up 45% to approximately $1.1 billion and underlying net income up 4% to $898 million. Growth in underlying net income was strong across Asset Management and Asia both up 18% on a constant currency basis and also in Canada, which was up 9% over the prior year. U.S. underlying earnings were down approximately 50%, mostly reflecting adverse COVID-19 mortality experience. U.S. infection and mortality rates related to COVID-19 remained elevated and as a result, we continue to see significantly higher-than-expected mortality in the working age population. We also saw elevated mortality in Asia, mostly in the Philippines.

Our capital position remains strong, ending the year at 145% LICAT for SLF and cash at the holding company of $4.7 billion. In November, following the lift of regulatory restrictions for all federally regulated institutions, we announced a 20% increase to our common share dividend, reinforcing our commitment to provide strong returns to shareholders.

Turning to Slide 5. We had strong full year results in 2021, closing the year with reported net income up 64% to $3.9 billion, driven by favourable market-related impacts and a $297 million gain on the IPO of our India Asset Management Joint Venture. Underlying net income was up 10% to $3.5 billion at the high end of our medium-term objective of 8% to 10% growth. 2021 underlying ROE of 15.4% was also strong, moving towards our 16% plus medium-term objective. And we ended the year with $1.4 trillion in assets under management.

We also had strong growth across our businesses in 2021. SLC Management had $32.5 billion of net inflows in the year and MFS ended the year with record AUM of US $693 billion. Individual insurance sales grew 36% in Canada and U.S. Group Benefits sales grew 13% in constant currency. Sales in Asia were strong outside of International Hubs and total Asia wealth sales were up 51% in constant currency. These results were achieved while managing through profound impacts from the COVID-19 pandemic.

Since the start of the pandemic, we have paid almost $900 million in COVID-related claims.

We are proud to be there for our Clients when they needed us the most. The pandemic has also had significant impact on mental health, and we continue to identify ways to help our Clients and our people work through these issues. We also demonstrated resilience through lockdowns and movement restrictions in the various geographies that we do business and we are constantly innovating to bring new digital solutions to our Clients.

And of course, the pandemic is not over as Omicron spreads around the world, we continue to see higher COVID incidence rates. And unfortunately, in cases where vaccine rates are lower, we are also seeing continued mortality. The pandemic has also disrupted supply chains and drove unprecedented stimulus from governments. These factors, among others, are driving higher inflation rates. Our diversified business mix is well suited to manage in an inflationary environment through continued business growth, disciplined expense management and pricing actions.

Inflation is also usually followed with higher interest rates. Steadily rising interest rates, particularly at the long end of the curve, are good for insurers and should provide profitability support over the medium term.

Turning to Slide 6. Our Purpose is more important now than it has ever been. People are focused on their health and long-term financial security like never before. This quarter, we delivered on key elements of our strategy. MFS maintained strong performance for Clients with 97%, 96% and 80% of MFS's U.S. retail mutual fund assets ranked in the top half of their Morningstar categories based on 10-, 5- and 3-year performance, respectively.

Canada continued to deliver on health outcomes, expanding our partnership with CloudMD to help Clients manage their mental health with our new Mental Health Coach. Many Canadians continue to struggle with mental health yet a Sun Life study found that over half are not seeking care.

CloudMD and our Mental Health Coach use data analytics to identify at-risk Clients and proactively reaches out to guide them to the right resources and support.

In the U.S., we continue to enhance our digital capabilities to make it easier for Clients to get the benefits they need. In 2021, this supported record U.S. Group Benefits sales of US $1.2 billion. In Asia, we're delivering on distribution excellence, where bancassurance sales in Vietnam have more than tripled compared to the prior year while continuing to invest in health solutions like Bowtie, Hong Kong's first digital insurer, positioning it to expand across Asia.

Sustainability is an imperative for Sun Life, and 2021 was a pivotal year for us. We achieved carbon neutrality across our global operations. And for the 13th consecutive year, Sun Life was recognized among the global 100 most sustainable corporations in the world, sharing the #1 position among insurance companies globally.

BGO is a great example of the type of investments we are making in sustainability. BGO was recently awarded the 2021 Outstanding Building of the Year Award for industry leadership and excellence in building management related to one of our retail and office complexes in Toronto. This 10-story building uses state-of-the-art artificial intelligence analytics that generated energy savings equivalent to the annual energy use of 442 North American homes. It also reduced carbon emissions by approximately 3.8 million kilograms over the course of 2020. Finally, Sun Life was recently certified as a great place to work in Canada and the U.S., adding to our previous certifications in the Philippines and our Asia Service Center in India.

Turning to Slide 7. Digital leadership is a key priority for Sun Life, and we continue to shift the organization to think and act like a digital company. Our digital strategy is centered on 3 areas: digital experiences, digital capabilities and digital ways of working. In Canada, our digital coach, Ella, continues to deliver meaningful outcomes for our Clients, driving nearly $700 million in additional wealth deposits and $950 million in insurance coverage sold this year. This is another example of how we are helping Canadians save for their future and ensure their families and loved ones have the protection and financial security they need.

In the U.S., we launched Sun Life Link, a broad portfolio of digital connection solutions to enable easier interactions with plan sponsors, reducing manual work and increasing operational efficiencies, allowing players to spend more time on things that matter to their employees.

Digital adoption is also a focus in Asia with 71% of new business applications submitted digitally in 2021, up 48 percentage points compared to the prior year.

We're making it easier for Clients to do business with us, especially during times where face-to-face connections are more difficult. We are empowering our people to support the digital journey by providing flexibility through a hybrid work model and increasing the number of agile practitioners by 63% over the last year. These are just some of the ways we continue advancing digital experiences and capabilities across our businesses, and we will be sharing more on our progress throughout the year.

Finally, reflecting on this past year and my first 6 months as CEO, I'm extremely proud of what we've accomplished. We are well positioned for growth, and we have a clear compelling strategy with a strong track record of execution. We continued to effectively manage capital with over 10 strategic transactions in 2021, including the acquisition of Pinnacle Care, the IPO of our India Asset Management Joint Venture and our intention to purchase DentaQuest, and we remain committed to our Purpose and to creating positive financial and health outcomes for our Clients. I also want to thank all of our employees and advisers around the world for everything they have done this year to help our Clients achieve lifetime financial security and live healthier lives. With that, I will now turn the call over to Manjit, who will take us through the fourth quarter financial results.

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

Well, thank you, Kevin, and good morning, everyone. Slide 9 provides an overview of our fourth quarter results. The results once again demonstrate the resilience of our diversified business model. Our wealth and asset management businesses delivered strong results driven by good net flows and favourable market conditions.

On the protection side, fundamental business activity was strong while COVID-19-related mortality and morbidity experience remained elevated in the quarter. Reported net income in the quarter was nearly $1.1 billion. This included higher investment property valuations, reflecting the value our investment team has created from repositioning the portfolio over the past few years. Reported net income also included a $297 million gain from the IPO of our India Asset Management Joint Venture. This was partially offset by an increase to acquisition-related liabilities at SLC Management, largely reflecting higher expected earnings at the time of buy up of the remaining interest in affiliates.

Underlying net income of $898 million and underlying earnings per share of $1.53 increased 4%, driven by broad-based growth across our business groups. COVID-19 related impacts of approximately $110 million in the quarter was largely offset by a lower effective tax rate, reflecting higher tax-exempt income and the release of a tax revision resolution of prior year's tax matters. Underlying return on equity was 15% in the quarter and 15.4% for the full year, marking the first time our underlying ROE has crossed 15% on a full year basis. Assets under management grew to over $1.4 trillion, reflecting market value growth and another strong quarter of net flows at SLC Management. For the year, SLC Management assets under management were up nearly $70 billion, driven by strong net flows and the Crescent acquisition.

Our wealth and asset management businesses in Canada and Asia also delivered strong AUM growth, up $14 billion from the prior year. Book value per share increased 8% over the prior year, excluding impacts and other comprehensive income, book value per share was up 12%. Our capital position remains strong with LICAT ratios of 145% at SLF and 124% at SLA. The financial leverage ratio increased to 25.5% and cash at the holding company increased to $4.7 billion, both reflecting the $2 billion subordinated debt offering we did in the quarter.

Slide 10 outlines the performance of our business groups. Asset Management reported net income of $140 million was down from the prior year, reflecting a $153 million charge for SLC Management acquisition-related liabilities. The increase in the liability largely reflects higher growth expectations. Accordingly, we are increasing our Investor Day target for 2025 underlying net income by approximately $10 million to $235 million. Asset Management delivered record underlying net income of $382 million, driven by a 14% increase at MFS and an 18% increase at SLC Management.

Canada's reported net income of $356 million was driven by higher real estate valuations and equity market growth. Underlying net income of $266 million was up 9%, reflecting strong expected profit growth and favourable expense experience. This was partially offset by a $20 million investment impairment and unfavourable disability experience.

U.S. reported net income of US $68 million was up slightly from the prior year as gains on real estate investments were mostly offset by lower underlying net income. Underlying net income of US $56 million was down from US $112 million in the prior year. The fourth quarter results included US $66 million of COVID-19-related impacts as the working age population infections and mortality remained elevated. We expect pandemic-related headwinds to persist for the first quarter of 2022.

That being said, the core fundamentals of the U.S. Group businesses are strong. We have maintained high persistency level and are generating good premiums growth. We have enhanced our product and digital capabilities, pricing for new business remains firm, and we've added key talent to support our growth strategy. In Asia, reported net income was $446 million, which includes the gain from the India Asset Management IPO.

Underlying net income of $130 million was up 18% on a constant currency basis. While we continue to face challenging conditions in some markets, overall business fundamentals were strong. Total expected profit and new business gains were up 20% on a constant currency basis. This was partially offset by $12 million of COVID-19 related experience, primarily in the Philippines. Reported and underlying net income in corporate were both up, driven by a lower effective tax rate in the quarter, partially offset by higher expenses.

On Slide 11, we include an updated view of our sources of earnings, reflecting 2 changes we made to provide more meaningful information. We've included the sources of earnings on an underlying net income basis, and we have reflected the Asset Management pillar on a separate line in the sources of earnings. Expected profit increased 6% on a constant currency basis, reflecting business growth and market-driven gains. Notably, Canada expected profit grew 9% and Asia expected profit grew 14% in constant currency.

Experience gains on a reported basis improved by $126 million driven by favourable market impacts that were partially offset by experienced losses. On an underlying basis, higher experience losses were primarily driven by COVID-19-related mortality and morbidity. Earnings on surplus was down from the prior year, driven by lower AFS and seed investment gains.

Slide 12 outlines insurance and wealth sales on a constant currency basis. Insurance sales were up 16%, primarily driven by a 26% increase in U.S. Group Benefits sales. The fourth quarter is an important sales period for the U.S. business, and we're very pleased with the record sales results for the quarter. Canada individual insurance sales were also strong, increasing 36% from the prior year. Asia Local Markets individual insurance sales grew 23% in constant currency with double-digit growth across most markets.

And while International Hub sales declined from the prior year, we have good momentum in the sales pipeline heading into 2022. Wealth sales increased 13% on a constant currency basis driven by higher defined benefit solutions sales in Canada and higher wealth sales in the Philippines and India. Asset Management gross flows were up 12%. SLC Management delivered strong net flows of $9.7 billion. MFS had US $1.2 billion of net outflows as retail inflows were offset by institutional outflows. Value of new business generated in the fourth quarter was up 19% on a constant currency basis, reflecting strong sales and higher margins across most businesses.

Turning to Slide 13, which outlines our 2021 full year progress on medium-term objectives as well as a 5-year view. We are pleased with our 2021 results, especially in a year where we had to manage through pandemic-related challenges across our geographies. The combination of our diversified business mix and global footprint allowed us to effectively navigate through a more challenging operating environment to deliver impactful health and financial outcomes for our Clients.

As we look ahead to 2022 and beyond, we are well positioned to build on a strong track record of performance, supported by our premier asset management franchises at MFS and SLC Management, leading wealth and insurance market positions in Canada, a shift towards more capital-light businesses in the U.S. and an established presence in attractive markets in Asia. And our strong capital position allows us to pursue attractive growth opportunities and provide strong returns for shareholders. With that, I'll turn the call back to Yaniv, for a question-and-answer period.

QUESTIONS AND ANSWERS

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

Thank you, Manjit. To help ensure that all of our participants have an opportunity to ask questions this morning, I would ask you to limit yourselves to 1 or 2 questions and then requeue with any additional questions. I will now ask Justin to pull the participants.

Operator

(Operator Instructions) And our first question comes from Humphrey Lee from Dowling Partners.

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

I guess my first question is on U.S. Group Benefits underwriting results. The dramatic normalization of stop-loss claims experience was a little bit -- was a big surprise to me, especially since the stop-loss players do have relatively favourable performance -- can you just talk a little more in terms of your stop-loss underwriting and compare that to the favourability that we've seen in previous quarters?

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

Yes. Thanks, Humphrey. This is Dan Fishbein. We continue to have favourable stop-loss results in the fourth quarter. What we've seen is a gradual wearing off of the favourable impact that we were seeing from the slowdown and reductions in care during the pandemic. As you know, those were very significant, both in 2020 and the first half of the year, and in the third and fourth quarters we've returned largely to normal hospital utilization, which then starts to impact the stop-loss results. But the stop-loss results actually remain favourable. We have estimated that about 60% of the favourable stop-loss results we've seen during the year were due to the delays in care due to COVID, but 40% was due to favourable underwriting and pricing results. And those continue and continued in the fourth quarter.

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

So, just kind of thinking more like for this quarter's results, since you don't provide the underlying net income for Group Benefits, but just thinking about on a net income basis, the US $9 million versus the US $15 million last quarter, the COVID claims was a little bit more unfavourable. Is the delta just seeing the normalization of the stop-loss? Or is there anything kind of running through the numbers?

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

No. The delta was essentially entirely or almost entirely the COVID claims. We've indicated that we experienced US $66 million in the fourth quarter, in unfavourable COVID claims, mostly mortality, some disability as well. So the difference between the fourth quarter and the third quarter is largely due to the COVID claims. If we think about what's been happening in the U.S. during the third quarter and especially the fourth quarter, we were experiencing the Delta variant, which was quite severe in terms of mortality.

And now we've begun very late in the fourth quarter and into the first quarter, experiencing the Omicron variant, which is less severe, but far, far more contagious and more common. So I think what you're seeing playing out here is the overall population mortality in the U.S. from COVID, which has, in the second half of the year, migrated much more into the working age population, whereas earlier in the pandemic, it was largely in the above 65 population.

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

But for the third quarter, COVID impact was it like US $50 million. So it just is not a big increase from -- for 4Q from 3Q.

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

I believe our COVID mortality and morbidity that we reported in the third quarter was US $27 million. But -- and that may -- it's significantly higher, though, in the fourth quarter. And that follows the incidence of deaths, unfortunately, in the U.S. in those time periods.

Operator

And our next question comes from Gabriel Diane Dechaine National Bank Financial.

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

Yes, I'm more curious about the outlook. You talked on for the U.S. group business and Canada as well for that matter. But I see some headwinds that may appear transient like the mortality rate in COVID-19 and -- hopefully transient anyway. But they may be replaced by other issues like mental health claims and medical cost inflation. And I'm just wondering how you see those trends evolving over the next year, really such that -- this quarter was particularly weak, but there is still some headwinds on the horizon for the group business that we have not really fully seen yet. Or alternatively, do you think, all right, you just -- you saw these things coming, you price for it, and we won't see an impact. Canada and the U.S., please.

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

Dan, do you want to start with the U.S. and then maybe Jacques can talk about the Canadian group benefits business?

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

So a very good question as to what second quarter impacts may be -- in the U.S., we are not as exposed to mental health claims. In our stop-loss business, of course, remember what that business is, is very large claims, generally above a catastrophic kind of threshold. So those are typically not where our mental health claims would fall. Mental health certainly have an impact on our disability business on the morbidity. -- But in the U.S. environment, which is quite different than Canada, mental health benefits and disability are limited to a 2-year term.

So while we may see some claims in that category, the reserve impacts because we, of course, set up a reserve based on the expected duration of the claim, are much smaller there. We're obviously very concerned about that issue for our members, and we've put additional capabilities in placeto help members in these difficult times, especially because of our disability business with return to work, including looking at alternative approaches, which are now more feasible in this more virtual work environment, at least for many roles. So we have more tools at our disposal to manage thatbut again, I think the impact in the U.S. is more modest simply because of the products that we are offering.

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

What about medical cost inflation. Is that any concern?

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

Well, medical cost inflation would potentially impact our stop-loss business. That's the one area that it could impact. Our stop-loss business - it fully reprices every year. And when we set our pricing factors, we take expected medical cost inflation into account, and we actually work with leading actuarial consulting firms to project medical inflation, which is pretty widely shared number in the U.S. and, of course, amongst the health insurers as well in public sources. So we price prospectively for medical trend, and we would have that in our pricing going forward. And if for some reason, that expectation was incorrect, we would be able to react very quickly as the business reprices each year. In fact, I mean, not that we're hoping for medical inflation, but the primary impact for medical inflation on our stop-loss business would be more premium.

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

Sorry, Jacques, I cut you off.

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

No, it's okay. So the situation in Canada, as you probably know, is a little bit different from what Dan is experiencing. COVID has actually not had a material impact on our mortality here. And as you probably know, Gabriel, there's a bit of a natural hedge in the Canadian business because we also have a large annuity block as you know. The mental part is an issue, and you've addressed that before, but let me give you a bit more context this time around. You might recall, we saw an increase in mental health cases and the impact on disability actually, from a number of years before COVID and it accentuated through COVID. But starting in May 2019, we started putting some price increases with the book.

And in fact, as of now, we've done 97% of it. So we think we're in a good place. And the incidence of disability is in line with what we expect from the pricing. But the issue at the moment is actually getting people back to work. It's the return to work variable that is a bit of a challenge. And that is in part driven by COVID because people need access to care, and access to care has been an issue during COVID. So we actually think when it comes to morbidity in Canada, we're in the right place in terms of pricing incidence. And the return to work aspect of it, we view it as in fact something that's more transient that you were saying earlier.

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

Okay. So you've priced for some of these trends in Canada, but the one that might be a little bit uncertain now is the duration of claim.

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

Yes. And due to the difficulty and as you know, it's well known has been in the media, access to care has been a problem During COVID, but we expect that as COVID recedes this will come back to normal.

Operator

And our next question comes from David Motemaden from Evercore.

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

Kevin, I'm wondering if you could just talk about how you're thinking about share repurchases now and maybe putting another NCIB out there now that it's allowed.

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

Yes. Thanks, David. As you can see from the quarterly results, we're in a strong capital position, but we do have the DentaQuest acquisition that's coming up. We expect that to close in the May, June time frame still and that will be using about US $2.6 billion of cash and capital. What we do with the NCIB is we look at opportunities for M&A activity to support growth and building capabilities, and our capital position.

So we'll be assessing that as we get closer to the back half of the year and get the DentaQuest acquisition closed. So it's a matter of looking sort of at our pipeline. We're still pretty active. You would have saw in my opening remarks that we did 10 strategic initiatives in 2021, and we've got lots that we see on the go and lots of opportunity to invest in our businesses. So it's a balance of those 2 things. And we'll be assessing that as we get closer to the back half of the year.

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

Okay. Great. And then maybe a question just on cash flow, free cash flow. Where did that come in for the year? I think last year, we were talking about an $800 million level net of the dividend. I guess, obviously, COVID is an impact this year, but maybe just talk about what you think free cash flow was this year and the outlook going forward given growth in the underlying businesses?

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

David, thank you for your questions. This is Manjit. As you know, we've sort of outlined the $800 million you're referencing as sort of a capital generation range over the medium term. In 2021, we are broadly in line with that. And given the mix of our businesses and our growth potential, we expect to be in that range going forward.

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

Got it. And I guess, why hasn't that grown? I think the last time -- you first gave that, I believe it was 2019. I mean obviously, COVID is a headwind, but the underlying earnings have grown since 2019 despite the headwind from COVID. So just wondering why the free cash flow generation hasn't increased.

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

I think there's a couple of things. So number one, as Kevin mentioned, we're continuing to invest organically in our businesses. And looking at some of the opportunities we have there. And then obviously, there's been some market impacts as we've seen changes in some of the market factors like interest rates. And like I said, the $800 million is kind of a medium-term target over a cycle.

Operator

And our next question comes from Tom MacKinnon from BMO Capital.

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

Question for Dan here. Fourth quarter is a big time for the new business activity in the U.S. group business, and you had 26% growth, I think, in sales there. So -- on one end, you're growing your sales 26%, and then the other end, you're experiencing higher-than-expected mortality claims, both in the same quarter. So maybe you can help us go through explaining your thought process in terms of pricing when these groups came up for renewal. Did you try to -- to what extent are you repricing in this elevated mortality? And how much of this elevated mortality do you think could go away through repricing?

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

Yes. Thanks, Tom. This is Dan. So first of all, the increase in sales in the fourth quarter, which, as you noted, was substantial, was mostly in our stop-loss business. So we had strong sales results in the group business as well, but largely consistent with the prior year. The increase was mostly in stop-loss. And the dynamics there is that we saw a much more rational pricing environment emerge in the fourth quarter, especially in the last 2 months of the fourth quarter, which, of course, are the 2 biggest sales months of the year because most of that business is on a one-one renewal and sales cycle.

So our very strong stop-loss products and team really carried the day in the fourth quarter as some earlier irrational pricing, quite frankly, that we had seen earlier in the year, largely evaporated in the fourth quarter. So we ended up finishing the year very, very strong, and having a nice strong close ratio, especially in those last 2 months. And so that bodes well for this year because we've had some nice business growth in the stop-loss business. Your comment, of course, on pricing is related specifically to the group life business. And of course, that is COVID-driven. In fact, we believe that's entirely COVID-driven.

So we are not pricing fully for the current COVID mortality because that's not expected to persist long term. However, we have taken pricing actions, some of which occurred in the fourth quarter to adjust our -- both our group life and our disability pricing upward to reflect what we think will be some long-term elevated experience,and we observe that in the marketplace, the entire marketplace appears to have moved modestly upward in the fourth quarter and moving into the first quarter. I would point out, as we've talked about in the past, that pricing changes don't click in immediately. Most business on the group side as opposed to the stop-loss side is on 2- and 3-year contracts. So it does take a while for those price increases to cycle through the book of business.

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

Okay. And then so the second question you've had really good sales growth in Asia, if you exclude the International Hubs. And this is the first time I've seen -- correct me if I'm wrong, but pretty good new business gains in Asia. So what is happening here? Is this business coming more to scale? Is it much more profitable? And how should we be looking at new business gains in Asia going forward. Is what we saw in the fourth quarter, an anomaly? Or should we be looking for continued business gains in Asia going forward?

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

Tom, it's Kevin. Ingrid's on the call this quarter. She's on the ground in Hong Kong now. And so I'm going to turn that question to Ingrid.

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

Kevin, thanks very much. Sorry a little bit of it blanked out, but I think I do get the question overall in terms of trend lines. On the new business gains, we've done a tremendous effort on actually addressing product profitability, ensuring we're asking quality sales. So while you've actually seen some of the trend lines, perhaps be a little bit irregular, some of that has been over defect. But interestingly, on the Local Markets look back over the past 9 quarters, this past quarter 4 has actually been our best quarter in the past 9.

And then if you look at the International Hubs, there's actually been a restoration of some of the momentum that this quarter was just probably 5%, 6% off the first quarter. So we are seeing sales coming through as the economies rebuild. So you should actually look at the expected profit and new gains as the line, which shows the line remain and we do remain optimistic. But clearly, there are some uncertainties around federal restrictions and the implications of the Omicron virus and government sponsors that then does actually flow through into lower sales. We remain cautious. Obviously, then we also need to track through and see the implications of mortality.

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

Tom, it's Kevin. I might just note that we've been, of course, investing in distribution for a number of years now in Asia. We see that the ASEAN countries, the Philippines, Vietnam, Indonesia, Malaysia with this growing middle class as being a great opportunity. We're, of course, #1 in the Philippines. We have a very strong agency force there and a good bancassurance relationship. We've grown significantly in Vietnam this year.

We did a bancassurance transaction with ACB last year, and then one the year before with TP Bank. So we're well positioned on the banca side, and we've got a nice agency that continues to grow and a new CEO there. So I'm quite excited about Vietnam. And in Indonesia we saw really strong results. We've got some good banker relationships there. CIMB Niaga is one, and we've got a good strong agency force and continue to see growth there.

In Malaysia, we've got a relationship with CIMB in Malaysia and are building out a high-quality agency force there as well. And then, of course, China and India are seeing the growth related to the emerging middle class as well. So that's why you're seeing strong results there. I think Ingrid's point around COVID is a good one though, because COVID impacted at different times in different ways across those countries. And so it's really a question of country by country as you think about COVID. But I would say, overall, our investments in distribution are paying off, and that's what you're seeing in the results this quarter, particularly with the emergence of the middle class.

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

And that is the takeaway that the new business gains that you got in the quarter in Asia, is that you expect those things to continue or to be significantly better than the business losses that you traditionally had in Asia. Is that the takeaway?

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

I think, Tom, you're right that the scale is helpful in Asia because it controls the expenses, the bigger your distribution channel and also the work we've done on the mix of business that Ingrid discussed earlier. So the combination of both of those is what you're seeing in the results.

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

Okay. I do like the new SOE disclosures.

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

Yes, you're welcome, Tom.

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

But it is more variable. Don't expect a positive trajectory. It will be variable through the quarters.

Operator

And our next question comes from Doug Young from Desjardins Markets.

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

So just back to you, Dan. The question, I guess, that I'm getting a lot is on the U.S. group business, and I think you've answered a lot of the questions, but maybe I'll just throw this out there. The question is like, is the policyholder experience that you're seeing, whether it's stop-loss or in the employee benefit side, do you see this as transitory. Do you see it more as permanent? -- and why? And how do you feel about being able to achieve that 7% plus margin on your group side that you've thrown it that you've obviously been in excess of that. Is that margin still realistic given the pressures that you're seeing?

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

Yes. Thanks, Doug. Great questions. I think there's a number of different pieces there to go through. So first of all, on the stop-loss experience. As I said earlier, we think that about 60% of the favourable experience in 2021 was from the impact of delays in care due to COVID. But about 40% of it was due to ongoing just really strong underwriting results. So in the fourth quarter, utilization returned, and this is based on overall population statistics as well as what we see in our book of business. Utilization returned very close to normal. So it's that underlying part of favourable experience that we would expect to continue, but the tailwind from delays in care would not.

Now, I should caveat that - there was a period of time, especially in January in the first quarter where there were hospitals were very overburdened. That's thankfully getting a little better now. So we might see some anomalies in the pattern versus a straight linear path back to complete normal utilization. As far as the mortality, what we experienced in the fourth quarter was, if you look at loss ratios or mortality as a relative portion of the book of business, our experience was middle of the pack compared to peer companies in the U.S. So nothing unusual in our book of business. Obviously, though, very unusual in that we're having a once in a century pandemic.

As you know, with both the Delta variant in the Fall and then the Omicron variant extending into January and February, we are in a very difficult part of the pandemic. At the same time, things are starting to get better, case loads, hospitalizations and now even deaths are starting to fall nationwide. So our belief and our hope, but of course, we can't predict what will happen, especially with the emergence of new variants. But barring another dramatic new variant, we would expect the COVID impact to subside after the first quarter. There will still be significant impacts in the first quarter, but we're hoping that we get to a much more of an endemic kind of level of impact beyond the first quarter.

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

And just around the margin?

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

Yes, on the margin, thank you. The margin, obviously, it peaked at around 8%, which was actually well above our target. Remember, it's a trailing 12-months measure. So we have to look back at all 4 quarters, and it will take a while for the COVID impacts to fully wear off. I will say the group business is actually in the best condition that it's ever been in with the exception, the very notable exception of the COVID mortality, but it's obviously hard to see through the fog of that right now.

But in terms of where we are on pricing, on sales momentum, on growth in the book of business, on persistency, on products that we've put in the market, new digital capabilities, I can sincerely say that business has never been in better condition than it is now. So as the COVID impacts fade, which hopefully they will, we should see the group business as a significant source of earnings growth in the U.S. as its underlying earnings power re-emerges.

Now one other comment just on the margin. The Dental business, which will become a very big part of our business when DentaQuest closes, is, by its nature, a somewhat lower-margin business because it's a business that requires very little capital. So lower margins generate very strong return on equity. So that's the nature of that business. So we are thinking about - is margin and the current target that we have out there, the right metric going forward considering the role that DentaQuest will play in our total book of business going forward.

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

No, it's good colour. And then -- just my second question, I don't know if Steve is on the line, but just on SLC, net inflow is $10 billion in the quarter. I just wanted to get a little colour of what you're seeing from a flow perspective. And obviously, it sounds like you increased your earnings target for 2025 by $10 million to $235 million. Just trying to get a sense of what drove that increase? And is there more gas in the tank on that side?

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

Yes. Doug, it's Steve. Thanks for the question. Yes, we feel like we're seeing really good momentum in the business. And one of the things that I feel really good about in our fundraising for the fourth quarter, but also for the full year, is the diversity of those flows. We're seeing growth across the platform. If you think of the fourth quarter, for instance, that number includes over $1 billion for Crescent mezzanine fund, almost $1 billion for European real estate fund at BGO, almost over $0.5 billion for a cold storage real estate fund, $500 million for our private fixed income business in the U.S., almost $500 million for lending increase in assets for our U.K. lending business at BGO. So it's very widespread and the same thing is true for the year. So we feel good about that, and we expect that to continue into this year.

And I would say that in terms of the increase in liability and the increase in our guidance that we had given out at Investor Day, that's primarily due to an increase in outlook at BentallGreenOak. And I would say that's because we're seeing new funds launched there that we hadn't originally included. And a good example of that is a cold storage fund. So that's a niche within industrial. That was a fund idea that kind of started to germinate in the fourth quarter of 2020. And today, we've raised over $1 billion. And another example at BGO is they bought a very small business from Carlyle in the secondaries business, now called BGO Strategic Partners. They're out fundraising, that's going gangbusters. So that's some of the things driving the increased outlook there.

Operator

And our next question comes from Meny Grauman from Scotiabank.

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

We talked about some of the headwinds to the group business, but I want to talk potentially about some of the positives here, Dan, you touched on a little bit, but lots of discussion on what people are calling the golden age of benefits. And just wondering if that's just a headline or are there something more material there that's really going to make an impact? And I don't know if we look at the results so far, I don't know if we see that coming through just yet. I'm just wondering your perspective on that given -- on both sides of the border, really.

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

Yes. So I'll start and then maybe turn it over to Jacques. It's a really interesting dynamic. And as you noted, there's a lot of speculation on that. Clearly, the labour market at the moment has become hypercompetitiveso employers are competing in whatever way they can for talent. In fact, we're doing that ourselves. And obviously, one very obvious way is with overall compensation and benefit packages. It's hard for us to tease out the specific drivers as to whether or not an employer is increasing the number of benefits and the amount they pay for them. We do see anecdotes that's necessary, as well our number of products has been going up steadily, although in a fairly modest way over an entire book of business.

It does appear -- and this may be more opinion than data that employers are using the compensation side versus benefit side as the bigger lever to attract talent in this environment. But certainly, the general direction and the pressure is to preserve and expand benefits versus to reduce benefits at this time. So that certainly bodes well for the business. And indeed, again, we can't exactly ascribe cause and effect. We are seeing nice growth in our group business and in our stop-loss.

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

Yes. Meny, this is Jacques here. I would agree with everything that Dan had said. Certainly, benefits are becoming more and more important. One example I might give you in Canada is Virtual Care or telemedicine, it's become a little bit of a must, if you like, if you want to have a modern and competitive benefits program in your organization, plus an emphasis on mental health and the benefits that come with that.

So -- the last point I might mention, you may have seen the announcement from Ontario, where they're looking to expand benefit coverage to cover what we call gig workers. It's something that we obviously welcome. We think that increasing benefits coverage, have more people covered is the right thing to do. So yes, I fully agree with Dan, and I think that benefits remain and are increasingly strategic for employers.

Operator

And our next question comes from Scott Chan from Canaccord Genuity.

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

Steve, I just wanted to go back to SLC for a moment because you talked about many different product launches. And if I kind of put it together, looking back at your Investor Day, you had $13 billion of net flows in 2020, you guided $23 billion in '21. And with almost $10 billion this quarter, you certainly exceeded it. So it sounds like you've got good visibility 1 year ahead on the platform. So just wondering with the pipeline you're seeing, is '21 repeatable? Or is it something that was just an obscure year just based on the timing of certain products?

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

Well, I would say -- thanks for the question, Scott. I would say that there is some lumpiness quarter-to-quarter, and we've seen it, and we'll continue to see it. The reason is that -- we've got a number of different product types. But across the businesses, we do raise private equity style funds. So as you know, those get raised periodically, you have 2 or 3 closings - typically have a couple of big closings in that product, you won't raise another fund for a couple of years. And so there's some lumpiness to it. And we saw some of that this year. We're in the middle of a big fund of mezzanine fund raise for the eighth mezzanine fund at Crescent -- they had a closing of their U.S. direct lending fund that was large this year. So there were some lumpy fundraises this year.

Having said that, -- we've got a number of things on the docket next year. As an example, Crescent will be in the market with their third European direct lending fund. They'll be in the market with a couple of different BGO products. So I don't think there was anything that would be anomalous in this year beyond just kind of some normal lumpiness. So I don't think we're putting out a specific projection for next year, but we think it will be another strong fundraising year in the same ZIP code.

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

Okay. That's helpful. And maybe my second question for Manjit. Just on earnings on surplus. It got affected this quarter by more AFS impairment investment gains. And in the past, you've kind of guided near-term that number, and I think it's been in the low $100 million range. I was just wondering with the rise in interest rates or the projected rise in interest rates, if you got in near-term guidance you could provide on that line.

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

Yes. Thanks for the question, Scott. As you mentioned, we had a $100 million sort of rough target in plus or minus per quarter. And as you mentioned, this quarter, we had the impact of the AFS impairment, but overall, we think the $100 million range for earnings on surplus remains the right level, but you might sort of see it bouncing around from quarter-to-quarter.

Operator

Thank you. And our next question comes from Paul Holden from CIBC.

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

So Mike Roberge normally gets a number of questions on the call, but none directed his way so far this morning. So let's get Mike involved. There was a lot of volatility in the market, clearly in January and MFS, as you've messaged in the past, tends to benefit from these periods of volatility. So wondering if you can give us some thoughts around fund performance sort of during this period? And what it might mean, particularly for fund flows as well.

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

This is Mike. Thanks, Paul. It was getting lonely here. I mean, it's such a short period of time. I would say from where we saw some of the parts of the market peak in terms of the really high valuation stocks in the Fall, in the early part of the year. And some of our strategies that had struggled, we've seen some pickup in performance. I guess the way I'd frame it is we think this is a year where the markets are going to be more volatile -- we think that we're going to have bouts of downside, just given the fact that for the first time in a number of years, the Central Bank is in play around the world. Central banks are in play around the world - starting valuations are high, and there continue to be a number of risks, whether they be inflation and what the impact of interest rates, geopolitical risks and a number of things.

So having emerging and newer emerging and more risk at the same time, valuations are high. I think it is going to create some challenges for the market. Our platform historically through cycle has performed well. Historically, we've done well in more difficult environments. And I would say that being those tied to the economic cycle. And so we'll see how that plays out. But we do feel comfortable through an economic cycle. In terms of flows, you see it quarter-to-quarter, and we saw that in U.S. retail in the fourth quarter is when the markets get more volatile, you do tend to see flows for the industry come down some.

And I would expect that's probably what we'll see this year. If the market remains volatile, people will sit on the sidelines, cash actually is going to have an additional yield this year, so people are likely to sit in cash relative -- and so our view is we've got to think through the cycle, we're investing in those things that we think will drive growth through the cycle. And we've been preparing over the last several years by not adding too much in terms of headcount and discretionary costs, and we think we're prepared for a more difficult environment.

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

Great. And then second question, maybe this one guided for Manjit or Kevin is just related to the DentaQuest acquisition, you gave us an update on expected close. Maybe you can give us an update on any work you're able to do ahead of close to help realize on expected benefits and synergies?

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

Yes. It's Kevin. I'll start with that. And I would ask Dan to speak to this, but he's actually had to step away for a funeral at 11AM. And I'm mentioning that so that he does step away and know that Manjit and I and Kevin Morrissey and David Healy have his questions covered. So keep the U.S. questions coming, but I want to make sure that Dan does leave -- his dad passed away earlier this week, and he needs to make it to the funeral.

So on DentaQuest, as I said earlier, we -- there's a number of states still to approve it. There's a number of steps to be taken. We still expect it to close in May or June. There are restrictions in how involved we can be, but we've been watching and the business has been performing well. So we're as close as we can be, but there are restrictions in terms of how much we can do in this interim period. But we're expecting that it will still at least maintain what we thought it would in our original business case and pricing. So we're excited. I hope that it closes as soon as it can. And I think it's going to be a great addition to the business still.

Operator

And our next question comes from Lemar Persaud from Cormark Securities.

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

My question is for Mike, just flipping back to MFS here. So margin just keeps grinding a little bit higher. Is this entirely due to the shift in mix to retail -- or is there something else in this 43% pre-tax margin? I remember in the not-too-distant past talking about margins in the kind of mid- to upper 30% range. So just any comments on that would be helpful.

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

Thanks for the question, Lemar. Yes, obviously, pretty good print in the quarter. But I think you got -- the market backdrop and the beta backdrop obviously has contributed to that. So our costs aren't going to rise at the same level. You get some operating leverage that's going to drive the market higher. We would continue to stay in that 35% to 40% through the cycle. Just to remind you, the first half of the year where we've got amortization of deferred compensation and stock compensation here tends to bring the margin lower, and then we get better margin in the back half of the year. So for the year with a market an all-time high, we printed a little over 40% margin, and that's the guidance that we've provided. So I don't think there's anything different that I would provide.

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

Okay. And then just to get some of your answer on an earlier question. So should we think then that with increased volatility in some of the challenges in the market, would it be fair to suggest that the net outflows in the institutional business might normalize?

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

It's possible because that book is primarily an equity book. So as the market continues to make all-time high as you see Clients rebalance. In addition to that, you get de-risking and DB plans -- and so that's definitely been a headwind for us as the market makes all-time highs. And so we're hopeful -- we're not hopeful for volatility, but I guess the offside to that is it probably brings some redemption activity down on that. The longer-term strategy in that book is to diversify into fixed income. So we can be on the other side of those allocations where people go out of equities into fixed income. And that's a clear part of the strategy here. And so again, as we think over the next several years, we would expect the redemption activity in that book hopefully to come down, but we do need to sell more particularly in fixed income.

Operator

And our next question comes from Nigel D'Souza from Veritas.

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

I had a quick follow-up question for you first on your U.S. Group Benefits exposure. I'm just trying to understand the relative risk on morbidity and mortality experience. Could you give us a sense of the vaccination rates in your group policies versus the general U.S. population. Is it higher or lower or roughly the same, just to get a sense of how experience could play out?

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

Yes. It's Kevin. I'm going to take a crack at this, but at a higher level, Nigel. If you -- and there's been a lot of discussion around mortality on this call for obvious reasons, and I think it's appropriate discussion. If you look at the death rates and the hospitalization rates where we do business and where you see them spiking, you see us having COVID death claims, and you see us having more morbidity claims. And that happened to us this quarter in the U.S. and in the Philippines, and it's happened to us in other quarters in India and in Indonesia as well. And it does relate back to vaccine rates, it relates back to lockdown approach by country and those types of things. And so COVID is not going to be with us forever, that we know, but it's not ending now either.

I mean Omicron is taking hold. So I would say that, in general, if you look at death rates and hospitalization rates in the countries where we do business, that gives you a good indication of mortality and morbidity when it's spiking. And I think that's the best way to look at it. This is what we're here for. These claims are important because they help protect our Clients. And it is why we're in business. It's part of why we're in business. And I think that these are -- COVID is obviously challenging different areas. So I don't know if we can give you the vaccination rates at our Group Benefits business versus the general population. But what I would say is that this quarter, when we talked to Dan, we saw consistent to industry and spiking death rates in terms of our mortality and morbidity claims. Kevin Morrissey may want to add a comment, though.

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

Yes. Thanks, Kevin. Maybe the only thing I'll add to that is when we think about the claims, when you think of individual life insurance that's individually underwritten, we see a benefit in terms of that underwriting effect. And we've seen that across all the geographies where generally the mortality rates are lower for the insured population than the uninsured, so that's generally a positive. But when you switch to group business, it's much more broad-based. We don't have individual underwriting done. And I think it probably more accurately reflects the profile of the population.

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

Okay. That's helpful. And my second question was on your effective tax rate. It's running -- you ran it lower this quarter, and I understand that the mix of a benefit from tax exempt income and tax items from the prior year that were resolved. I was wondering if you could just provide more colour on that. How much of the decrease was for tax exempt income versus prior year issues and maybe some specificity on what exactly drove it? And some colour on where you expect that tax rate to run at going forward?

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

Nigel, it's Manjit. Thanks for your question. So as you know, the tax rate can move around from a quarter-on-quarter basis for many reasons. The jurisdictional mix of our earnings, true-up of prior year tax matters and the nature of the income that we generate. In the quarter, as I mentioned in my prepared remarks, the 2 main items that drove the lower tax rate this quarter was sort of the increase in the tax exempt income and the resolution of prior year tax matters.

And we've disclosed that in our financial statements. But to give you a rough estimate, it's about 2/3 of that is related to tax -- higher tax exempt net income and about 1/3 of that is related to resolution of prior year matters. And then in terms of your last point in terms of how we think about it going forward, we think about the 15% to 20% range for the full year is still a good way to think about it on a specific quarter, but you can have differences for the reasons I mentioned.

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

Okay. And just a clarification on that. I mean are these items that are essentially automated where there's a marker that triggers a recognition? Or is there any selective nature of when you can recognize these tax items?

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

No, there's no sort of -- you don't get to pick when these things happen.

Operator

And thank you. And I'm showing no further questions. I would now like -- we have no further questions at this time. And I would now like to 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. Should you wish to listen to the rebroadcast, it will be available on our website later this afternoon. Thank you, and have a good day.

Operator

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