REFINITIV STREETEVENTS

EDITED TRANSCRIPT

SLF.TO - Q4 2023 Sun Life Financial Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 08, 2024 / 3:00PM GMT

CORPORATE PARTICIPANTS

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

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

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

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

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

Manjit Singh *Sun Life - Executive VP & CFO*

Michael Roberge *Sun Life - Chairman of MFS Investment Management*

Randy Brown *Sun Life - CIO*

Steve Peacher *Sun Life - President of SLC Management*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

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

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

PRESENTATION

Operator

Good morning, and welcome to the Sun Life Financial Q4 2023 Conference Call. My name is Sheree, and I will 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 Fourth 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.

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

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

Thanks, David, and good morning, everyone. Turning to Slide 4. We delivered strong performance during the fourth quarter, contributing to strong full year results for 2023. Our results show the strength and resilience of our business mix and the positive impact we're having on our clients. We achieved strong underlying earnings for the quarter of $983 million, up 10% year-over-year. Our strong results were broad-based with strength in Canada, U.S. and SLC management. Underlying ROE of 18.4% this quarter is above our medium-term financial objective of 18% plus, reflecting our strong earnings and disciplined financial management. Further, we maintained a strong capital position with an SLF LICAT ratio of 149%.

Our results reflect exceptional individual protection sales and good momentum in our Group Health and Protection businesses in the fourth quarter. Strong Group Health and Protection sales were driven by both our Canadian and U.S. Group businesses. In Canada, sales were up 63% year-over-year, largely due to higher large case sales and in the U.S., both Dental and Health and Risk Solutions sales were strong. This quarter, DentaQuest was awarded two new Medicaid dental benefits contracts in two states and commercial dental sales increased 55% over the prior year.

The dental business has recorded more than USD 650 million in sales since the closing of the DentaQuest acquisition on June 1, 2022. Individual protection sales were driven by strong performance in Asia, with sales up 49% year-over-year. International high net worth sales were 2x higher than the prior year and Hong Kong sales were 4x higher.

Our Hong Kong sales growth reflected our diversified mix of high-performing, quality-focused distribution channels, including our broadened broker network and new agency teams focused on Mainland Chinese individuals and our bancassurance partnership with Dah Sing Bank. Canadian Individual Protection sales were up 23% year-over-year, driven by higher third-party sales. Wealth sales and asset management gross flows were up in the quarter with the Canadian business up 32% due to higher Individual Wealth and Defined Benefit sales.

SLC demonstrated strong capital raising, closing the year with $177 billion in fee-earning AUM, up 8% over the prior year. SLC also won the 2023 CIO's Industry Innovation Awards for Private Credit. MFS experienced outflows, primarily driven by industry conditions. During the year, MFS became the 9th largest fund group for the U.S. retail mutual fund industry based on AUM. And next month, MFS celebrates their 100th anniversary. Congratulations to Mike Roberge and our colleagues at MFS on this milestone. Keeping with MFS, I want to recognize their recent leadership announcement with Mike Roberge set to become Executive Chair of MFS on January 1, 2025, and Ted Maloney to take on the role as their CEO. Ted has been with MFS for almost 20 years and is currently their Chief Investment Officer. Congratulations to both Mike and Ted.

Turning to Slide 5. Our full-year 2023 results were driven by similar factors as seen during the fourth quarter. Underlying net income increased 11% to $3.7 billion, supported by growth across all businesses. Underlying ROE of 17.8% was also strong. Total assets under management reached $1.4 trillion in 2023, demonstrating the resilience of our business in a challenging environment.

Turning to Slide 6. This quarter, we delivered on several key business initiatives that helped drive our client impact strategy forward. Providing access to care and helping clients live healthier lives remains a top priority. We remain a leader in health benefits and services in Canada and the U.S. and are increasingly leveraging digital partnerships to support our clients' health journeys. This quarter, we finalized a contract with the Government of Canada to be the administrator of the Canadian Dental Care Plan, which will provide access to dental care for up to 9 million additional Canadians.

We also completed the acquisition of Dialogue, Canada's premier virtual health care and wellness platform. And finally, in Canada, we completed a minority investment in Pillway, a virtual pharmacy offering increased choice and convenience for our clients. In the U.S., we successfully launched the pilot of Sun Life Health 360, an app built using Dialogue's flexible digital engagement platform as a front door to health and wellness support.

It's an example of how we are leveraging our strategic capabilities across markets to create value for our clients and advancing how we think and act more like a digital company. Through this pilot, over 63,000 members now have access to Sun Life Health 360, bridging the gap in accessing care and helping facilitate better health outcomes. We're continuing to roll out the platform to more members and further enhancing the app by enabling access to programs focused on kidney, joint and muscle condition, among others.

We continue to expand our distribution capabilities and product suite to support our clients in achieving lifetime financial security. During the quarter, we formed a securities investment dealer, Sun Life Canada Securities, having received regulatory approval from the Canadian investment regulatory organization.

We anticipate an operational launch later this year. Our expanded offerings in Sun Life Canada Securities will broaden access to wealth solutions to help clients achieve lifetime financial security. SLC Management recently announced a strategic relationship with Scotiabank to distribute our alternative investment products to the Canadian retail market through Scotia Global Wealth Management. This relationship will provide Canadian high net worth investors with access to our world-class alternative investment capabilities.

In Singapore, we launched a new index universal life product, providing high net worth clients a dynamic balance between long-term protection and growth and the flexibility to customize premium payments and investment allocations. This product has been well received by the market. We're doing more to think and act like a digital company, harnessing the power of Generative AI. We're testing and learning with several Gen AI experiments across the organization, balancing innovation, while managing risk.

This quarter, we launched a new Gen AI-powered tool that helps developers write and test code more efficiently. The tool was launched to over 2,000 employees, and we're seeing productivity gains from the first group of adopters, enabling delivery of new digital experiences for our clients.

In the U.S., Gen AI is helping improve productivity in our call centers by analyzing and summarizing calls and delivering insights on clients' top concerns. We're excited about the potential Gen AI has to help create more exceptional client experiences and improve workplace productivity.

Finally, we continue to be recognized for our progress in sustainability and our inclusive culture. Sun Life was recognized by Corporate Knights as being among the Global 100 most sustainable corporations in the world for the 15th consecutive year and the 6th consecutive year as the top-ranked insurance company in North America. Additionally, Sun Life received numerous employer recognitions in 2023, including being certified as a Great Place to Work in several key markets. SLC Management was also named 2023 Best Places to Work in Money Management for the fourth year in a row by pensions and investments. We are pleased to receive these recognitions as they reflect our inclusive culture and our commitment to our people.

Turning to Slide 7. We remain confident in the resilience of our strategy and our ability to execute on our strategy. In 2024, we'll be focused on taking the next step in our digital development, advancing how we think and act like a digital company. This means building on the strong foundation we have built over the last 4 years under our digital enterprise program, where we have been modernizing our tech stack and building our agile working model.

2024 will see us continue to evolve towards thinking and acting more like a digital company, including building out new apps and new features on existing apps to support our clients' financial security and healthy living.

We will also continue to look for and execute on synergies between asset management and insurance, building on the strong capabilities at SLC and MFS. We have built a strong health business in Canada and the U.S., and will continue to deepen the impact we have on client health, and we will accelerate our momentum in Asia, focusing on building quality distribution and strong execution.

Finally, we will continue to evolve our culture towards bolder thinking, driving a bias to action and delivering on results. In closing, I'd like to wish our Asian colleagues around the world good health, happiness and prosperity as they celebrate Lunar New Year over the next few days and welcome the year of the Dragon.

Kung Hei Fat Choi. Gong Xi Fa Cai. Chúc Mừng Năm Mới for all of those that are celebrating their new years. I'd also like to recognize Black History Month, where we're celebrating the outstanding contributions and achievements of black individuals who have made a positive impact in our communities. It's important to continue to build a more inclusive culture for everyone.

And I'd like to share a final note that this will be Manjit's last call as our Chief Financial Officer. As you all know, Manjit will be taking on the role of President of our Asia business starting in March. Manjit, on behalf of all Sun Lifers, congratulations on your new appointment. We're looking forward to working with you in your new capacity and continue to see great things coming out of Sun Life Asia.

And with that, I will turn the call over to Manjit, who will walk us through the fourth quarter financial results.

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

Thank you, Kevin, and good morning, everyone. Let's begin on Slide 9, which provides an overview of our fourth quarter results. We delivered strong results this quarter as underlying net income of $983 million and underlying earnings per share of $1.68 were up 10% and 11%, respectively. This was driven by strong performance in U.S. and Canada as well as resilient asset management earnings. We are pleased that our underlying ROE of 18.4% crossed the 18% mark this quarter.

Our peer-leading ROE is driven by our attractive mix of businesses across Wealth and asset management, Group Health and Protection and Individual Protection. Wealth and Asset Management comprised 40% of Q4 underlying earnings, and was up 7% from the prior year. This was driven by higher asset management fee-related earnings and higher investment income, reflecting volume growth and increased yields.

Group Health and Protection businesses comprised 34% of underlying earnings and grew 14% year-over-year. Results were driven by good sales growth, improved disability experience and higher investment contribution, partially offset by lower dental earnings.

Individual Protection comprised 26% of underlying earnings and increased 23% from last year. This was driven by business growth and higher investment earnings, partially offset by the sale of the Sun Life U.K. business. New business CSM of $381 million was up 51% from the prior year, reflecting strong sales in Asia and Canada. For the full year, we added over $1 billion of new business CSM. Reported net income for the quarter was $749 million, $234 million lower than underlying earnings. The difference between underlying and reported net income was driven by acquisition-related costs, amortization of intangibles and unfavourable market-related impacts.

Market-related impacts were primarily driven by negative interest rate experience, reflecting lower rates and unfavourable real estate experience. Real estate experience reflects modestly negative total returns in the current quarter versus our long-term expectations of approximately 2%.

We are long-term investors and continue to view real estate 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 in excess of our current long-term assumptions.

Our balance sheet and capital position remains strong. This provides us with financial flexibility to support attractive organic and inorganic business opportunities, return capital to shareholders and maintain resilience to absorb potential impacts from volatile market conditions. SLF LICAT of 149% increased 2 points from the prior quarter, primarily driven by strong organic capital generation.

Total capital generation in the quarter before payment of dividends was just over $1 billion, reflecting good business results and favourable capital impacts from lower interest rates. Book value per share increased 2% quarter-over-quarter, Holdco cash remained strong at $1.6 billion, and our leverage ratio remains low at 21.5%.

Now let's turn to our business group performance, starting on Slide 11 with MFS. MFS net underlying income of USD 191 million was down $11 million or 5% from the prior year, reflecting higher expenses, partially offset by higher ANA and increased investment income. Reported net income of USD 183 million was down 18% year-over-year, driven by the fair value changes in shares owned by MFS management. Pre-tax net operating margin of 39% remained resilient.

AUM of USD 599 billion was up $43 billion from the prior quarter, driven by market appreciation, partially offset by net outflows of $11.2 billion. MFS investment performance was strong. Over 95% of fund assets ranked in the top half of their respective Morningstar categories for both 5- and 10-year performance. Short-term performance was impacted by the significant outperformance of a small group of equities relative to MFS' broader core and growth-oriented strategies.

Turning to Slide 12. SLC Management generated underlying net income of $70 million, up from $48 million last year, driven by higher fee-related earnings and higher seed investment income. Fee-related earnings of $92 million were up 26% year-over-year. The increase reflects strong capital raising and deployment of capital into fee-earning AUM over the past year as well as the AAM acquisition.

Reported net income was $47 million, up $29 million year-over-year, largely due to growth in underlying earnings. Capital raising of $5.5 billion increased over the prior quarter, driven by demand for public debt at SLC fixed income and strong fundraising at BGO. For the full year, SLC Management raised $13.1 billion of capital. Total AUM of $223 billion was up $13 billion from the prior year.

Turning to Slide 13. Canada underlying net income of $350 million was driven by strong growth across all businesses. Reported net income of $348 million was in line with underlying earnings as unfavourable market-related impacts and acquisition-related expenses were largely offset by favourable ACMA. Wealth and Asset Management underlying earnings were up 28% year-over-year on increased investment income from higher volumes and yields. Group Health and Protection underlying earnings increased 56% year-over-year, reflecting business growth and improved disability experience, driven by higher margins, lower claims volumes and shorter claim durations.

Individual Protection earnings were up 9% year-over-year on higher investment earnings, partially offset by unfavourable mortality experience. Both Group and Individual Protection businesses posted strong sales growth. Group sales were up 63% on higher large case sales, while Individual sales were up 23% due to higher par life sales.

Turning to Slide 14. U.S. underlying net income of USD 187 million was up 8% from last year. Reported net income of USD 77 million includes unfavourable ACMA, negative market-related impacts and acquisition-related expenses. Group Health and Protection underlying earnings were down from the prior year, driven by lower dental results, partially offset by growth in Group Benefit earnings.

Our Group Benefit businesses benefited from strong revenue growth, driven by good sales and disciplined pricing, higher investment returns and improved mortality experience, partially offset by less favourable morbidity experience compared to the prior year.

U.S. morbidity experience in the quarter remained favourable in stop-loss and group disability, partially offset by unfavourable dental experience. U.S. group sales of $932 million were up 4% year-over-year, driven by strong stop-loss sales. We are pleased with this performance during this important part of our annual sales cycle. Lower dental results were driven by the impact of Medicaid redeterminations on member count, which drove lower dental premiums and higher loss ratios.

Looking forward, we expect the added revenue from 2023 sales as well as our current sales pipeline to more than offset the impacts from the Medicaid redetermination process, driving good dental revenue and earnings growth in 2024. Individual Protection results increased year-over-year, reflecting the inclusion of our legacy U.K. business and better mortality experience.

Slide 15 outlines Asia's results for the quarter. Underlying net income of $143 million was up 5% year-over-year on a constant currency basis. Normalizing for the impact of insurance experience, Asia's results were in line with the prior quarter, reflecting good core business fundamentals. Reported net income of $44 million includes unfavourable market impacts, partially offset by favourable tax benefits.

We continue to see good sales momentum in Hong Kong with sales up 4x year-over-year, and in High Net Worth, where sales grew 88%. The strong sales results also drove new business CSM of $223 million, up 82% from the prior year.

Overall, we closed the year on a high note. We delivered year-over-year underlying earnings growth of 10%, generated peer-leading underlying ROE of 18.4%. We maintained an excellent capital position, had strong sales momentum in both our Individual Protection and Group Health and Protection businesses and our Asset Management businesses were resilient, delivering steady contribution in a challenging environment. Looking ahead, we are optimistic that our strong fundamentals and focus on execution will help carry our strong performance into the new year.

In closing, as Kevin noted, this will be my last call as CFO. I'd like to thank my finance team for all their tremendous support over the past 3 years in my tenure as CFO. I would also like to thank our investors and analysts for your thoughtful engagement.

Now I'll turn the call over to David for Q&A.

QUESTIONS AND ANSWERS

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 one or two questions and then requeue with any additional questions. I will now ask the operator to poll the participants.

Operator

(Operator Instructions)

That will come from the line of Meny Grauman with Scotiabank.

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

I wanted to ask about the impact of real estate this quarter and just see whether the impact was concentrated in any particular geography or property?

Randy Brown - *Sun Life - CIO*

Meny, thank you for the question. It's Randy Brown. The decrease in the valuation in real estate, I would say it's primarily office and worse in the U.S. than other areas. And what we're seeing is actually pretty healthy for the market because we're getting the difference between buyers and sellers with these valuation write-downs, closing that gap, which is leading to the beginning of actually a functioning market again because we had seen a dearth of activity and you need that activity to get the market back to balance.

So I would say primarily office and primarily U.S., but it was also in Canada as well. Additionally, as we talked about in prior quarters (added by company after the call), we are seeing revaluation in things like industrial and multifamily as well, simply a delayed response to the increase in interest rates. So we've seen the underlying metrics change and adjust and this was something that had been signaled broadly in the real estate markets.

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

And then just as a follow-up, I mean, it looks like the drag is getting bigger. So I'm wondering -- I think you touched on it, but just if you could provide maybe some outlook or guidance in terms of how reasonable is it to assume that those impacts have peaked for you? Maybe start there if you can give some thoughts on that, because it definitely looks like it's -- the impact is getting bigger quarter-to-quarter here in terms of the drag.

Randy Brown - *Sun Life - CIO*

Sure. Thank you. The expectation is you saw the very rapid increase in interest rates that really peaked in the summer. And so the decrease in valuations in Q3 and Q4 as a result of the increase in rates is quite logical. The expectation is that real estate prices will continue to normalize for the first half of 2024 and then stabilize. But I do want to remind people, we are a long-term holder, our typical hold period is 10 to 20 years in the portfolio.

We're a cash buyer. So we have absolutely no pressure to sell. So we can weather situations like this and actually benefit from them because it gives us opportunities to go into the market and buy things that what we think could be really attractive long-term values.

As Manjit said, we have outperformed our long-term expectations over the last decade. So it's an asset class that is important to our big, global diversified asset holding, high quality. It has a place in it. It's performing well over the long run, and we think it's -- it will continue to do so.

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

So just to follow up on that. In terms of your outlook for office -- U.S. office specifically, like have you made a determination in your view, the valuation pressure is temporary and it's not, let's say, structural. Is that something that you're kind of willing to say like that's what we believe here? So just thoughts on how structural the revaluation is specifically for maybe the hardest hit property types that you hold?

Randy Brown - *Sun Life - CIO*

Yes. The office sector in particular, I think it's a bit structural for a while as a result of the change in working dynamics. Work from the office or work from home changed during COVID. We are seeing a gradual return to office across the industry, but I don't think we ever get back to, 4 or 5 days a week in the office across all sectors that would populate office space. So I think that piece of it is what I would call temporary structural. But over time, the economy is growing and demand for office space will rise. And so you need to have that transfer from current holders who may need less space to new holders that are growing.

So if you take an intermediate to long-term view on office, we think there will be opportunities actually to do quite well in office, but not yet.

Operator

And that will come from the line of Thomas MacKinnon with BMO Capital.

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

I guess the first question maybe is for Kevin. This is Manjit's last call. And I think within 5 weeks, he's going to be in Asia. So just if you can update us as to how the search for his replacement is coming along? And I have a follow-up.

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

Sure. Thanks, Tom. And I want to say again that I want to thank Manjit for his leadership as the CFO over the past 3 years. He guided us through the IFRS 17 project which was one of the biggest projects the company has ever done, and the end of COVID. And he's built a really strong fellowship at Sun Life, including in Asia. So I think he is going to do a great job in Asia, and I'm looking forward to working with them as the President of our Asia business.

As you know, Manjit will be the CFO until mid-March when he takes over as the Head of Asia. We've already begun interviewing both internal and external candidates. We're seeing some really great people. And once we've finished our search, we'll have an announcement on the new CFO.

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

Okay. And I guess a follow-up would be with respect to the capital generation, I think, Manjit, you said it was over $1 billion before payment of dividends, and that's about 100% of your underlying earnings, seems to be stronger than what you've kind of outlined as your medium-term guidance. What was driving that to be better in this quarter? And if you can comment about maybe utilization of the buyback, you've been quiet with respect to that.

I guess, maybe you have some of the material non-public info on a CFO change, and maybe that's what stopped you from buying back in the quarter, but what are your thoughts on that just given the good capital generation?

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

Tom, so I'll take the first part of your question and then hand it over to Kevin for the buyback question. So as you noted, we have a very strong capital position at 149%. And again, that represents our strong mix of capital-light businesses. Over the medium term, we expect to generate capital between 75% and 85% of UNI, and that's before dividends and after funding organic investments and what that translates to is roughly 1 to 2 points per quarter on average. And as you noted, every quarter, that might bump around a little bit, this quarter was a little bit higher than that.

And the main reason for that was in addition to strong business capital generation, we also saw some favourable capital impacts from market movements, primarily driven by the lower rate environment. So I'll turn it over to Kevin on the buyback.

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

Thanks, Manjit. And Tom, you -- as you know, our decision on buybacks has a lot of factors, including where we are on M&A and also looking at things like non-material public information, as you mentioned, like a change in the CFO. We expect to execute on our buyback, and we intend to start purchasing once the blackout period ends. So I think it's -- our intention on buyback hasn't changed and it just gets reflected in terms of what's happening in total around the company.

Operator

And that will come from the line of Gabriel Dechaine with National Bank Financial.

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

I do want to revisit the CRE thing, just a different angle, though. One, and I think Randy confirmed that, none of your properties are levered, so you're full -- there's no mortgages on these properties. And then the other aspect of the commercial real estate exposure, the mortgage book itself, where you're the lender. I just want to confirm there were no losses and if there were, would we see that and disclosed, distinctly? Or would it just go through investment experience?

Randy Brown - *Sun Life - CIO*

Thank you, Gabriel. Randy again. In terms of the real estate equity portfolio, you are correct. We don't lever. We do have one exposure to a fund in Asia because in Asia, they can't own U.S. property directly. So it's in the form of a REIT and the REIT has moderate leverage, lower than the industry, but moderate leverage. That's really the only place. With respect to CML, we had one small loss that came through, rounding error. And other than that, we have no arrears.

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

Okay. And from a -- yes, sorry, Manjit, I guess you can answer the other part of that?

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

Yes. So Gabe, on your second part of the question, if we did have any kind of impairments that would come through our credit experience line in the DOE.

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

Okay. Got it. And then well, Manjit, Asia is your new home soon, a big region, obviously. Sales growth looked really good this quarter, but 6% earnings growth, not really what people expect from that business. I know your management team spent a fair bit of time traveling the region over the past quarter. And I just want to get a sense for what your perspective is on the business today?

What fixes need to be made, where you need to reinvigorate - which franchises need to be reinvigorated? Are there any particular problem areas, maybe Vietnam, I hear some lapse issues that are going on there. Just maybe some broad strokes and what you -- where you think the division is headed and how are you going to push it in that direction?

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

Thanks for your question, Gabe. So overall, I think if I step back and we have a tremendous franchise in Asia. One of the great things about Sun Life is we've been in Asia a very long time, and we've built strong roots there. We've got an amazing group of people that work there, and we have excellent partners that we have in each one of our jurisdictions.

In terms of individual businesses, I mean, those things will ebb and flow over time. Our Hong Kong business, our International High Net Worth business, as you heard on the call, are doing extremely well. And there are a few places like Vietnam that are going through a downturn right now, but we have a strong franchise. We have good people, and we have a good plan, and I expect that to turn around.

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

Gabe, it's Kevin. I might just add, you had mentioned the quarter. And I just want to point out that overall, I view Asia as having a good quarter. It was a little bit behind our average of $150 million per year or per quarter for the year. But we also saw good growth in this. We saw good growth in the CSM and we saw strong sales. So I think that those two things have to be looked at together.

And if you actually -- if you look at the business growth for the quarter was $47 million, which was quite significant. And one of the things that I look at is the expected insurance earnings which grew quite nicely over the year to $150 million in the quarter. So while the quarter may be a little bit behind our sort of $150 million that we've run rate per quarter this year, I would say that overall, it's still a good result.

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

Okay. And as -- like longer term, you just got to build scale, sell more product, build up the in force, that's really the name of the game?

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

We've been building out our distribution strength in each of the markets. We've entered into a number of new bancassurance deals. We've been focused on building out agency-broker relationships. I mentioned earlier the Hong Kong sales and the work we've been doing with Mainland Chinese individuals and driving flows there.

So it's about focusing on the client, getting the right product and distribution and focusing on the quality of the distribution, and we've been building out those capabilities. And yes, it's -- our thesis continues. We've talked about 15% growth from Asia, and that's kind of what we look to and are expecting over the medium term.

Operator

That will come from the line of Doug Young with Desjardins Capital Markets.

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

Maybe I'll stick with Asia. I guess 2-part question. It looked like one of the drivers of the underlying earnings not really expanding the way people thought was -- expense experience, I think, was part of -- there's a bit of lapse in there. But just maybe you can talk a bit about the negative experience this quarter? What were the drivers? Is this more temporary?

And then obviously, what we're seeing so far this year is a fairly material pullback in equity markets in China and Hong Kong and there's an element of your Asia business that is exposed to equity markets. Just trying to get a sense or maybe you can map out a little bit how to think about that equity market movement and the implications for your business in Asia.

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

Doug, it's Kevin. So I would start by saying that I noted the strong business growth of $47 million, and you're right to point out that, that was offset by experience losses and those experience losses were roughly 1/3 from policyholder behaviour, 1/3 from expenses and 1/3 from other items. The expenses were a mix of things, including AIP, some project spend, some investments we made in brand, which we think are all good things.

So that's part of it. On the policyholder behaviour, it was a mixture of things happening in Hong Kong where we were seeing conversion of our term products into more permanent products. And on that conversion, we experienced a lapse loss in essence. But to offset that, we see growth in the CSM when they're going into the new product.

And we did see a little bit of lapse in other parts of the ASEAN. But it was a mixture of things. And I think that overall, I still come back to what I said to Gabe, that if you look at where we're at and the mixture of the business growth, being offset by some of these experienced things that were kind of a mixture of multiple pieces.

If I step back and look at your question around equity performance, we have a fairly small exposure to China. I mean our business in China is a joint venture with Everbright Group that we own 25% of. It's not a major piece of the income or how we look at Asia. We think long term, it's got great potential, and we like the relationship with Everbright, but it's a smaller piece of our business in Asia.

And in Hong Kong, you saw the growth we've had during the year. We continue to build out capabilities. We're the third largest MPF and we have a significant client base there that we think we can leverage. And we've been building out our access to Mainland Chinese individuals coming into Hong Kong to purchase both insurance and health products. And I would say that while there is some equity exposure, particularly in the MPF business, I think the broader fundamentals of the distribution capabilities that we're building out more than offset that, and you see that during the quarter.

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

I appreciate it. And then just second, maybe on SLC, I know Steve is there, but I did see a bit of a step-up in outflows quarter-over-quarter. And I guess more -- what I'm looking for is what mandates -- because obviously, the capital generation was strong and net inflows were good, but you are seeing a bit of a step-up in outflows. But just trying to get a sense of where you're seeing like what mandates are you seeing net inflows? What mandates are you seeing some net outflows, just to get a broad sense of that?

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

Yes, Doug, it's Steve Peacher. Thanks for the question. A lot of our products, especially in real estate and infrastructure and private credit are in closed-end funds where you really don't see outflows. So when you -- when we've seen outflows, it's really been from our fixed income clients who normally take money out or give us back money based on their own operating needs. And we -- I would say on our outflows, we really haven't seen any unusual spikes, and we've, knock on wood, really have seen very low outflows due to investment performance.

It's usually due to the operating needs of the client. In terms of where we've seen inflows, one aspect of the SLC platform now is, we're pretty diversified across asset classes. So 2023 was a tough year to raise money in real estate, as you might expect, given the rise in interest rates. But it was a good time to raise money in fixed income. So we raised over $5 billion this year in our fixed income asset, investment-grade fixed income.

We raised money at Crescent Capital in private credit which is an area that people are very interested in. And so I think that -- the diversity of the platform helps us there. And I just pointed out, we ended the year on a strong quarter. I think we had $5.6 billion of fundraising. And for the full year, if you look at fee earning AUM, our net inflows were about $14 billion.

Operator

And that will come from the line of Mario Mendonca with TD Securities.

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

I just want to go through a couple of questions that have already been asked. First on Asia, how would you characterize this spending? The additional spending? Would you characterize it as spending in support of new like better sales and better earnings going forward? Or is this -- would you say it's more related to like regulatory spending, infrastructure, compliance, controls. How would you describe that increased spending?

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

There's a mixture of both, Mario. There is - part of it has to do with we increased our brand spend, and we think that, that will pay dividends over the long-term. Brand is an important factor in Asia, as you would know. And there was other things that were -- there were some IFRS 17 costs in the quarter and some of those types of things. I'd say most of it, though, is related to trying to position ourselves for growth.

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

Work with me on the buyback. I think, Kevin, you referred to, you said a number of factors could drive your feelings about buybacks. But you specifically referred to M&A as one thing. So maybe do you -- is there anything more you want to highlight there? And then secondarily, does valuation, like given where the stock trades right now, does that enter into your thinking about the pace of buybacks?

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

So there's a few things that we would look at. Obviously, if we're looking at a big M&A and it's material that would exclude us. We also look at M&A just from the factor of what do we have in our pipeline and what do we expect to be -- to need in terms of driving the M&A aspirations that we have.

So I think M&A is pretty evident. We've sort of run with this across multiple quarters and over a long period of time, we look at that M&A pipeline and where we're at and also it would impact if there was a material M&A that we were looking at. So I think that we also -- of course, price is one of the factors that we would consider and look at. We look at sort of the expectations and some of those types of things. That's also one of the factors that goes into our calculation.

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

All right. Just real quickly on -- yes, please. Was someone there?

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

You cut out, Mario?

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

Sorry. How about now? Can you hear me okay?

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

Yes, you're fine now.

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

Yes. Let's go back to MFS for a moment. So the outflows, obviously accelerated. I was a little surprised considering how strong market conditions were. But I mean, there was a comment there that the environment remains challenging for all U.S. asset managers. Just given what the market did in the quarter and the direction of interest rates, I would have thought there'd be some flows into MFS. And then secondarily, on MFS, we've now seen 4 consecutive quarters of negative operating leverage. Is there something you can do on the expense side given this new environment?

Michael Roberge - *Sun Life - Chairman of MFS Investment Management*

It's Michael Roberge. On flows, it just continues to be -- if you look at what's happening in the industry, clients continue to be comfortable sitting on cash. Our biggest competition currently is cash. And irrespective of what the market has done to date, historically, what gets the cash off the sideline is central banks, in the U.S., the Fed, beginning to cut rates and cash yields come down and clients tend to then migrate to broader investment products. And so we would expect that to happen. The market's got the Fed priced for second quarter of this year. And hopefully, that's when you'll see industry flows turn.

Our share of active outflows last year for the year was actually less than our share of assets under management. So as painful as it was, we actually picked up share last year. And as Kevin mentioned earlier, we actually moved from 10th to 9th largest player in the industry last year. And so I think we're like everybody else, we're waiting for investors to migrate back into the markets broadly.

In terms of operating leverage, assets -- given where ANA has been over the last couple of years, there's going to be some negative leverage as part of that. I would say as we're thinking about the business last year, we actually selectively took up head count in areas where we're trying to grow.

We've talked about growth in fixed income, growth in non-U.S. retail. We took up our technology spending. We think now is an opportunity to differentiate our client offering and our ability to -- because we're at scale to invest in the business to differentiate over the next few years. And we think it would be wrong now to overreact to shorter-term sort of headwinds in the marketplace and focus on those things that we think will drive flows over the next 3 and 5 years.

We recently announced that we're going to launch active ETFs in the U.S. And so we're trying to identify areas of the market where we think we can grow. We think we can invest, we think we can differentiate and ultimately build a lot of brand loyalty with clients.

Operator

And that will come from the line of Paul Holden with CIBC.

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

First question is for Dan. A number of moving pieces going on with the U.S. group business, maybe an update on your expectations for redetermination impacts over the next couple of quarters. And when should the strong sales results start to overwhelm that, i.e., when should dentale earnings inflect higher?

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

This is Dan Fishbein. Yes, great question about the Medicaid redeterminations. As I'm sure you've noted from our comments, Medicaid redeterminations have been both faster and more significant than I think anybody had anticipated. As of the end of the year, we've had about 12% of our dental Medicaid membership move off the rolls due to the redeterminations.

Our latest prediction is that this will be completed by July by definition. And by that time, about 17% of the starting Medicaid membership will have been disenrolled. This has happened obviously over a fairly lengthy period of time. It started last May. And during that time, we've also had quite a significant amount of sales, both in Medicaid and other parts of the dental business. In fact, since the acquisition through the end of 2023, the dental business has made $650 million in new sales, including $423 million last year.

Virtually or most -- the vast majority of that $423 million was not on the books as of the end of 2023. So that will be coming on board as we move through the first portion of 2024. In addition, there are significant other sales that are close to closing. So in balance, when you layer in the disenrollments, but also the new sales, we expect the dental revenue to grow in 2024 as compared with 2023.

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

Great. And there was a question on SLC, I want to follow up on that and it was regarding inflows versus outflows, you gave a little bit of a historical perspective. Hoping maybe you can give us a little bit of a forward outlook there in terms of your expectation for fundraising in 2024?

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

Yes. Thanks for the question. We're optimistic as we look at the coming year. I think our total fundraising last year was just over $13 billion. We would -- which was lower than what we expected when we entered the year last year. We expect it to be meaningfully higher this year for a couple of different reasons. One is, looks like the headwind from interest rates, Mike Roberge mentioned in the public markets, hopefully is moderating. But also part of our fundraising in a given year is which funds -- what do we have on our schedule in terms of fundraises. We've got a couple of big fundraisings coming up at Crescent with products where they're on their fourth or ninth version of the products with a lot of installed investors that we would expect to reinvest.

So that will help us this year. We've got a number of funds at BGO that we're raising money for, et cetera. So we think the environment should be helpful, and we've got some big fundraises coming up. So we're optimistic about the coming year.

Operator

And that will come from the line of Darko Mihelic with RBC Capital Markets.

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

I have two quick modeling questions. Just if you can give an outlook for 2024 for the Corporate segment just in terms of sort of an expected sort of loss run rate, that would be very helpful. And my second question is really easy. I'm just looking at your supplemental in Canada and essentially what I'm looking at is the expected earnings on short-term group business, the growth there has been very high.

I wonder if you can just give us some reasons for it, maybe an outlook for the growth there in that particular item, this is line #3 in your supplemental on Page -- I have the Excel spreadsheet open, but I think you know which line talking about it's exceeded premium growth. And so just wondering how we should be thinking about that specific line item for the Canada business.

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

Darko, it's Manjit. So I'll take the corporate items. So I think on the corporate item, we've talked about, on average, that Corporate would have a loss of around $100 million. That's kind of where we've been trending. And I think that's around where we'll trend for next year.

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

Jacques here, Darko. Yes, sorry. Your question on short-term business. It's actually predominantly related to premium growth. There can be some volatility in that line, depending on the actual level of sales and in particular, the profitability of those sales and the impact on reserving. So it's predominantly premium growth. We should expect it to continue.

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

Okay. But just to be clear, I mean, your premium growth is nowhere close to the growth in this line item. So you're just suggesting it's sort of business mix? Is that the better answer or maybe correct my thinking on that.

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

Yes. It's more linked to the profitability of those sales, and some of them, maybe Kevin Morrissey, you want to give more detail there?

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

Yes, Darko, it's Kevin Morrissey. Maybe just to elaborate a bit. Part of what I'd say is the fundamental pieces what's driving that growth is the size of the business. As Jacques mentioned, there's also a second piece related to that short-term business under the IFRS 17 accounting if the business is onerous. You do have to reflect a loss upfront, and we do reflect it in that line.

So from time to time, some of the business related to the profitability of the business that comes on, you can have some short-term volatility in that line, and we saw a bit of that is explaining the quarter-over-quarter variance there.

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

Okay. And is that expected to persist? In other words, less onerous sales are expected to persist for 2024?

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

Yes. I would say that, that is our outlook. But I think from time to time, depending on the environment and the competition, you may see a bit of volatility there, but the outlook is, I think, in line with what you described, yes.

Operator

And that will come from the line of Lemar Persaud with Cormark.

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

I want to kind of come back to the answer on MFS to Mario's flows question, so maybe for Mike. Is there something special that really drove the move into cash this quarter? I would have thought that rotation would have played out in a bigger way as interest rates are moving much higher, not necessarily in Q4. So could you just help me understand the timing of the outflows? I'm just having a hard time understanding why the pickup and the outflows in Q4 versus, say, earlier on in 2023?

Michael Roberge - *Sun Life - Chairman of MFS Investment Management*

Yes, Lemar, if you look at industry data, we saw redemption rates. What we had seen throughout the year, sales rates across the industry were relatively -- were very low relative to what we see in typical cycles. So sales rates have come down, redemption rates had normalized from 2023, when you had the move down in the markets and then there was a bunch of tax loss selling in the fourth quarter of last year.

What we saw happen in the fourth quarter is actually redemption rates spiked for the industry again. So sales rates were low and redemption rates spiked. So whether it was clients taking tax loss selling, reallocating to other asset classes, and actually not putting net new money into investment products.

And so it's not an MFS-specific issue, it's what we're seeing happen in the industry. And the firms that we work with, the brokerage firms we went to, they're clearly trying to get their cash off the sidelines as well for their clients. And we're working with them to begin to get -- to hopefully migrate that cash out, but we have yet to see that happen, particularly in the retail channel.

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

Okay. That's helpful. And then I just want to come back to an earlier question on real estate and the outlook going forward. So continued normalization in the first half of 2024 and then kind of stabilizing. What interest rate assumption are you baking in there? Are you assuming any cuts? What if we see some cuts into summer and fall, like how do you think real estate evolves?

Randy Brown - *Sun Life - CIO*

Thank you for the question, Lemar. It's Randy. What we've seen is the stabilization of rates and that's healthy actually for the real estate market. If you if you look at forward pricing in the bond market, market is expecting Fed cuts. But what you've heard signaled from the Fed is higher, longer, unless there's a disaster, not in March, then you have an election later in the year. So it creates a fairly narrow window for them to make a big move.

So I'm assuming sort of stable rates allows people to readjust. And that's part one. And part two is the change in valuations, as I talked about earlier, is actually quite healthy for the market because it reduces that bid-offer gap and you start to see transactions. And once you start to see transactions, and we are starting to see them, that then puts the real estate into a stronger set of hands, and that's also positive.

So I don't think we need rates to drop a lot to start to see some stability. We just have to make sure they don't rise significantly from here. Our expectation and the expectation of the market is that we've probably seen peak rates in that central banks will begin to cut rates at some point here, which will also be supported for real estate valuations.

Operator

And that will come from the line of Nigel D'Souza with Veritas Investment Research.

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

A couple of follow-up questions from me. The first on SLC, I believe you had some seed investment in this quarter. Just wondering if you could tell us what that was on a post-tax basis, trying to get a sense of the growth in underlying income year-over-year, excluding those gains and perhaps even what your operating margins would be, if you excluded that.

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

Yes, Nigel, thank you for the question, Steve here. Yes, we did -- in terms of our earnings profile, maybe a quick comment first. Most of our business is very steady quarter-to-quarter. We got paid management fees on the assets we manage, and it's very predictable. But then in any given quarter, our earnings can be impacted by some things that probably one time is the wrong term, but episodic might be the right term. And that -- an example would be mark-to-market gains, hopefully, gains, but could be losses on seed.

It could be catch-up fees when we have a closing on a fund where you earn catch-up fees, could be carried interest. We think we'll see more of that going forward. So from time to time, we have some tax movements one way or the other. In this quarter, we had $70 million of underlying net income as was reported. And while I'd love to say that, that is the new run rate, we did have some things break our way. So we did have some mark-to-market gains there in the quarter. We also had some catch-up fees related to a BGO fund that was being raised in Asia.

So if you were to ask me kind of where do I think our core earnings rate is on underlying income -- net income today, I would say it's around more like $50 million-ish and moving up. So we did have some things move our way positively this quarter.

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

Okay. That's helpful. And then if I could just quickly follow up on the unfavourable credit experience in Canada. Could you remind me again what exactly drove that this quarter?

Randy Brown - *Sun Life - CIO*

Yes. It's Randy. Sorry, I had trouble hearing that. The unfavourable credit experience, we had one particular loan in the U.K. where the borrower ran into difficulties across the broader portfolio, so defaulted on several things. And I view it is idiosyncratic, not representative of the larger portfolio. To put it into context, it's about 15 basis points on the whole - on the portfolio.

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

And sorry, could you remind me which segment that was recognized under, again?

Randy Brown - *Sun Life - CIO*

Canada.

Operator

And we do have a follow-up question from Thomas MacKinnon with BMO Capital.

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

Just a follow-up question here with the good morbidity experience you continue to have here. Help us understand, do you -- what is contributing to this? Do you -- how much would it be in sort of the company's hands to be able to have continued morbidity experience like good claims management and good underwriting or do you think it's more a function of just a strong employment market. Just some context around that? And how -- what's your outlook for this trend, just given it's been pretty favourable in the past.

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

Tom, it's Kevin. And it hits differently by market. So Jacques is going to speak to Canada, and Dan will speak to the U.S.

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

Yes. Thanks, Kevin, and thanks, Tom. Obviously, we're pleased about the results there. And as I've outlined before, Tom, there are really 3 levers that are impacting the insurance experience. The first one, and we do have control over these are the pricing decisions that we make. And you might recall, back in 2019, we started seeing that the elevated experience would continue -- a lot of it driven, by the way, by mental health issues. And we took actions pretty early, and we wanted our pricing to be in line with expected experience. So that's definitely contributing.

The other factor, the second lever is the volumes of disability cases that come to us. And you've mentioned, for example, the economy's employment levels. But it's something that we don't actually control very much. Or if at all. And the third one is the duration of disability cases. And that, I would say, to a certain extent, we do have an element of control. I mean some of it is a bit outside our control.

But our disability case managers are handling these cases very well. And to the extent we're able to reduce duration, that helps. One example I would give you is we offer something called the mental health coach and we've noticed that when people are using the mental health coach, they've got both lower and shorter durations of disability. So it's a complex environment, if you like, and we watch this very, very carefully all the time, particularly when we need to take pricing action because we see that as something that we need to adjust on a dynamic basis. I hope it helps on that situation in Canada.

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

And this is Dan Fishbein. Like Jacques, I'll give a 3-part answer, breaking it into the 3 businesses where we have morbidity. First, to comment on the dental business morbidity. We are seeing the loss ratio go up there related to the Medicaid redeterminations because the leavers have a lower level of utilization than the stayers. So we -- that is part of the pressure that we are seeing. In the disability business, very much like what Jacques was saying, we -- a fair amount of this is the way we're managing claims, the way we're helping people get back to work. And we have seen favourable disability for 5 to 6 quarters. In the immediate prior quarter compared to the same quarter of the prior year, you may not see that because we had an exceptionally strong quarter for morbidity in the fourth quarter of 2022.

But overall, we're seeing favourable disability results and experience. And in the stop-loss business, we actually have seen some increase in the loss ratio or therefore, a reduction in morbidity results. Now we expected that. And of course, we said that would happen as we move back from the impacts of COVID towards our pricing loss ratio.

But we view that as something that's being managed to be a soft landing. In fact, in 2023, the stop-loss loss ratio went up by only 90 basis points. And we might have projected more than that, to be honest. But we continue to take a very disciplined approach to pricing, while still at the same time, still supporting record sales. And so we see that loss ratio likely to continue to move toward pricing targets, but at a measured pace.

Operator

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

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

Thank you, operator. 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.

Operator

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