Welcome back. I'd like to welcome our next guest to the stage, Manjit Singh, Sun Life's Chief Financial Officer, who will have been the Chief Financial Officer for nearly a year now. Thanks for coming to Montréal, your hometown, I believe.

Yes, it is. Delighted to be here and actually doing an event in person.

Exactly. That's common theme, so let's stick with it. I'd like to kick things off with a big picture question on -- obviously, world events are pretty crazy right now. Do you see any specific impacts to your business, or do we have to just think about the impact in the broader macro sense?

Yeah. I mean, let me just sort of say off the bat, we're very saddened and concerned about what we're seeing happening in the Ukraine and the impact that's having on so many innocent people. And we've joined the efforts globally in terms of providing financial and humanitarian aid to those that have been affected.

To your question, Gabriel, in terms of impacts, I think it is a broader impact. We don't have any direct exposure to any Russian investments in our general account. We have small sort of holdings on some of our asset management on a third-party basis, so no direct impact.

And on a macro basis, I think the markets have been hanging in there pretty well. We have seen some impact, but nothing too extreme. We believe that, overall, the North American markets, in Canada and in the US, we have seen very strong job numbers a few weeks ago. And GDP growth is still going to be in the low single digits to maybe 3% to 4%, so that's still a good number. And 80% of our business is in the North American environment, so we think that will be good for us.

And overall, we run a very diversified business. We are a global business. We are in insurance, and we are in wealth management. And even in insurance, we are in different kind of products in group and in individual. We have very low sensitivities to market factors, like credit spreads and interest rates. We hold very strong capital liquidity positions. And then we also have very active and strong risk management within each of our businesses to make sure that we can manage through any disruptions or any potential disruptions in our businesses. So we think we're fairly well positioned to manage through some of the impacts we're going to see in the next little while.
Gabriel Dechaine - National Bank Financial - Analyst

Okay. Now bringing it closer to home, Canada obviously, but the news the other day. Liberal-NDP alliance for the next few years cemented the pharmacare, dental care initiatives that they're proposing. Last time this was bubbling, questions came up about Sun Life -- the potential impact to Sun Life's business from pharmacare specifically, and it was quantified that the pharma element of the group business in Canada was about 15% of your earnings. I'm sure the number has not really changed that much, but in the way the proposal looks today versus what it was being pitched as previously, any change in perspective?

Manjit Singh - Sun Life - EVP & CFO

Well, obviously it's still very early days with the announcement, a very general announcement last night, as you saw, so we'll have to wait to see how it's going to shape out over time. Broadly speaking, we're supportive of ensuring that Canadians get access to pharmacare, to help them get the medications and the care that they need, to help them live healthier lives. That's the very core part of our overall purpose.

And in fact, even today, most Canadians do have some of that coverage with their employer plans, and we think it's important for them to kind of have that choice. And of course, for those element of populations that are uninsured or underinsured, programs like this can be helpful. And we've been involved with the government, and in dialogue, to help think about how we can implement that, and we'll continue to engage in those dialogues.

Gabriel Dechaine - National Bank Financial - Analyst

Okay. Well, speaking of dental care and DentaQuest, what’s the acquisition integration of the -- you're not actually actively integrating anything at this point, but --

Manjit Singh - Sun Life - EVP & CFO

Yeah. So we're going through the approval processes right now, as we have mentioned, when we announced the transaction last fall that we were hoping to close up mid-year; we're tracking to that. And we've begun our integration planning with the team, and we're really excited about that transaction as we've talked about. It's another leg of our strategy in the US group space, and we're kind of in the employer benefit space right now.

And this gets us into the government space, and that's been a really good market; it's been growing actually faster than the private employer space. It's got very stable margins and the business generates a very strong return on capital. And DentaQuest is a market leader, so we're very excited about having them join the Sun Life family.

Gabriel Dechaine - National Bank Financial - Analyst

The appeal of the public market was obviously highlighted, but what about -- and I'm sure this is part of the game plan, but maybe we should talk about it since the deal was announced a month ago; a little refresher is helpful. Plugging in the private market services that they have or offerings into your network, is that going to be something easy to do and good upside?

Manjit Singh - Sun Life - EVP & CFO

Yeah. I think they have two components to their business. They have the individual Medicare, Medicaid business and that's going to -- there's not really a lot of integration on that side. But they also have four million commercial clients, and that's where we think there's a lot of opportunity for us to work together to strengthen the offering on both sides. And so we'll look at that once the deal closes.
Gabriel Dechaine - National Bank Financial - Analyst

And just for my edification, I guess, when -- is it like banking, where, in the US, people, they go to multiple banks for their different products. Their businesses use multiple providers for group benefits, group retirement, and dental, though it seems like a bit of a hassle if I was a business.

Manjit Singh - Sun Life - EVP & CFO

Yeah, a lot of it’s done through brokers, Gabriel. So employers work with brokers and the brokers source all the different kinds of benefits that an employer wants for their employees. And some of that can be bundled with one provider, but, other times, it could be different providers.

Gabriel Dechaine - National Bank Financial - Analyst

Okay. A little different topic here but on expenses. And I ask this because not that this is a particular issue or anything, but in, well, late 2020 -- when did you take the -- there was a real estate restructuring.

Manjit Singh - Sun Life - EVP & CFO

That was the end of 2020.

Gabriel Dechaine - National Bank Financial - Analyst

Okay, end of 2020. It made me curious about any other initiatives you’re looking at as you evaluate your real estate needs or your evolving business mix and strategies. Is there any particular area you’re focusing on now for possible changes?

Manjit Singh - Sun Life - EVP & CFO

Yeah. Maybe if I broaden out your question, obviously, no. I think everyone is looking at inflation and the impacts of inflation on expenses and run rate. And I think, in the media, there’s a lot of high numbers that have been quoted, 7%, 8% type of inflation. And we’re not seeing that kind of increases to our cost base and the kind of cost that we have applied, looking at low to mid-single digits, depending on the nature of the cost.

And then if I look at how do we manage through that kind of environment, I think we’re very well-positioned for that. We’ve always had a strong expense focus and discipline expense focus at Sun Life. And we’ve had to focus on productivity and looking at ways that we can continue to operate better, and that’ll help to offset some of the increases.

And some of the things we’re looking at on the productivity side would be process reengineering, designing our processes better, and we’ve got good capabilities on that. In fact, last year, we generated over 120,000 hours of savings on that side. We’ve made significant investments on the technology side that’s helping us to deliver technology at a cheaper cost than we used to before, that’s going to help drive productivity.

Obviously, we’re a large buyer of third-party services, so that’s going to -- we’re going to use that to kind of help provide better rates for the services we buy. And then, of course, there’s discretionary costs too that we’re going to be watching closely.

But the one thing I’d mention is that we’re not going to abandon our focus on investing for the future. That’s been a key part of our strategy for many years; we’re going to continue with that. But obviously, there are opportunities for us to pace the spend differently if we needed to do that.
Gabriel Dechaine - National Bank Financial - Analyst

Okay. One big theme or trend, and I know I've asked about it on several calls now, is that the group business, both in Canada and in the US, there've been some claim -- negative claims experience issues. In the US, seems more of a mortality because of the ages of who's being affected. And in Canada, it's more of a disability issue, people staying on claim longer and the like.

How do you expect these two issues to evolve? Like, is there an indication that you expect it to moderate over time? I guess the question will be, how long does it take to moderate? And two, what's the source of the moderation? Is it a normalization, like fewer people dying, or the repricing efforts?

Manjit Singh - Sun Life - EVP & CFO

Okay. So let me try to --

A lot of --

Manjit Singh - Sun Life - EVP & CFO

Yeah. A lot of questions, and let me try to unpack that.

Gabriel Dechaine - National Bank Financial - Analyst

If there's portions that I forget, just remind me. So let's start with the US. So as you said, in the back half of last year, we did see, across the US, a significant increase in the mortality in the general population in the US, really starting with Delta in the early Fall and then, of course, Omicron later in the year. And that resulted in higher mortality experiences for us and, in fact, for the rest of our US peers.

And when we had our Q4 call in the middle of February, what we talked about was to say, in early January and into February, we were expecting -- we were continuing to see that elevated mortality. And so that meant that our view was, for Q1, the experience would look very similar to what it did in Q4. That wasn't to suggest that it would end in Q1. It's just that, at that point, you don't -- nobody really knows the path the pandemic is going to take. We've gotten a lot of head fakes over the last few years. So that's the visibility we had.

Now the good news is is since that time, we've seen actually the COVID-related mortality in the US come down. So in January, COVID-related deaths per day in the US were about 2,700. And as of last week, that's down to 700 a day. So it's still elevated, but much coming off the significant peaks that we saw.

And as you remember, Gabe, one of the things we've also talked about is there's a delay in terms of the deaths that we're seeing in the market and the impact that it has on our results. There's about, I'll call it, a four- or five-week delay because of the time that there's a mortality event to when we actually get the claim, there's a bit of a lag in that. So in Q1, you're really seeing the mortality experience, call it, from the early to mid-December to early to mid-March.

So in Q2, you'll still see some elevation because, as I'm saying, we are still seeing 700 deaths a day. And so you'll still see --
Gabriel Dechaine - National Bank Financial - Analyst

Plus some of the lag.

Manjit Singh - Sun Life - EVP & CFO

Yeah. So plus some of the lag. So you'll still see an elevated level in Q2, but, if current trends hold, a lower level than what you saw in Q4 and Q1. And then, of course, in the latter half of the year, if we see that declining trend continue, you'll see the mortality experience leveling off. We don't expect it to go to zero. I think there is still an expectation that there'll be some endemic level of mortality that will persist even in the back half of the year. But what you are seeing on that side is we, along with the rest of our peers, are repricing for that, to your comment, of that higher-level mortality.

And I think the thing to remember with that is that the repricing will take about two to three years because that's the length of the contracts in our book. So we started that process, but, in terms of it fully being reflected in the result, that will take a couple of years.

Gabriel Dechaine - National Bank Financial - Analyst

Yeah, a third, a third, a third. Okay. And in Canada?

Manjit Singh - Sun Life - EVP & CFO

In Canada, to your point, the different dynamic in Canada. So we really haven't seen a lot of spikes in mortality on the working age population. So we haven't seen that experience coming across our Canadian book. What you have seen is higher disability, as you talked about too. And there's sort of two dimensions to the disability issue.

So the one is incident. So how many people are going on disability. And we did see an increase in that, even pre-pandemic, and that was mainly related to higher mental health incidences. And we did price for that, even prior to the pandemic, starting in Q2 of 2019. And we put two subsequent increases for that as well. And as we sit here today, I think we are pretty comfortable that we've repriced for the rates.

Gabriel Dechaine - National Bank Financial - Analyst

So in 2020 and 2021, you've put --

Manjit Singh - Sun Life - EVP & CFO

Yeah. So incidence and the incurrence for incidences, I think our book is priced for that. But the second dimension of the long-term disability is around resolution. So how many people -- how long is it taking for people to get back to work.

And what we have seen with that is that, because of the issues we've seen to access to healthcare, during the pandemic, it's taking longer for people to get back to work. But hopefully, as hospital and cares open up again, that issue will correct itself. We don't think it's a permanent issue, but we'll obviously watch it. And if we need to make any adjustments to pricing, we will.

Gabriel Dechaine - National Bank Financial - Analyst

Have you made any adjustments to reflect inflation, whether it's -- I mean, I imagine on the care providers in Canada or elsewhere for that matter, they're not becoming any cheaper.
Manjit Singh - Sun Life - EVP & CFO

Yeah. I think, again, there's different dimensions on different businesses in Canada and Asia. But specifically, in Canada, we have two different types of businesses, and that we have businesses where we're just providing the administration services. So as a percent of the claims coming through. So obviously, as claims go up because of inflation, you will naturally see an increase on that side. And on the other parts of it, again, we have an opportunity to reprice that almost every year as we're renewing the contracts.

Gabriel Dechaine - National Bank Financial - Analyst

Sorry, in Canada, the contracts are not -- they're usually a year or --?

Manjit Singh - Sun Life - EVP & CFO

Yeah, (multiple speakers).

Gabriel Dechaine - National Bank Financial - Analyst

So the fix of repricing can happen on a much more rapid pace.

Manjit Singh - Sun Life - EVP & CFO

Yeah.

Gabriel Dechaine - National Bank Financial - Analyst

Okay. On the MFS business, I have a speaker earlier and they've got a big wealth business as well and did phenomenally well. MFS is also doing phenomenally well, 40%-plus margins for four of the past six quarters. The market is a little bit different these days. Should we expect maybe seasonality impact [plus] market impact would dip -- the margins would take a dip for the nice little while?

Manjit Singh - Sun Life - EVP & CFO

Yeah, I think that's right. So overall, we've sort of talked about having 35% to 40% pretax operating margins in MFS. And to your point, in Q4, we were in the low 40s, and we talked about that margin coming down for Q1. And what we really were referring to there is there is seasonality, as you mentioned, in that margin. Q1 and Q2 tend to be in the lower side of that, and then Q3 and Q4 on the higher side of that.

And what drives that seasonality is some of the deferred compensation that takes place in Q1 and Q2. And for employees that are retirement-eligible, there's an acceleration of that compensation that gets recorded in Q1 and Q2. And typically, that's been a couple of percent in margin, and you'll see that going back. So that's what we were referring to there.

I think if you look broadly at Q1, those are the two impacts you're going to see. You're going to see the margin being impacted by the seasonality by a couple of percent. And roughly, 1% in margin translates into about CAD 10 million after-tax in earnings impact.

And the second impact is, of course, you've seen equity markets moderate, right? So given some of the geopolitical events, given some of the run-up that we saw last year, our AUM that we disclosed -- we disclose AUM for MFS on a monthly basis -- so the numbers we provided at the end of February down about 7% to 8% year to date. And 1% decline in AUM is about a CAD 4 million to CAD 5 million impact.
So you'll see both of those coming through in Q1, both the seasonality and the decline in AUM, given the decline in equity markets. But as you mentioned, overall, MFS is a fantastic brand. It's a top 10 asset manager in the US, large-scale, great brand, and then continuing to attract good net retail inflows.

**Gabriel Dechaine - National Bank Financial - Analyst**

Investment income, the investment experience gains that you've disclosed in your slide deck there. They've been pretty low for the last two or three quarters. Can you just give me some broad strokes on what's behind the trend, and is there any recovery expected any time soon?

**Manjit Singh - Sun Life - EVP & CFO**

Yeah, sure. So the investment activity gains are really reflecting some of the trading activity and investment activity that we undertake for our general account. And they're really -- what really drives those investment activity gains is the function of a few things. One is obviously what's happening in the markets, and then secondly is our own trading strategy.

And so that's going to -- and because of that, I don't think it's -- we would look at that on quarter-to-quarter basis. It's really -- we should look at it over a longer period of time. And we step in and we take advantage of things that we see in the market. So in Q1 of 2020, when we hit the pandemic, you saw credit spreads, pricing add, and maybe there was a dislocation of the market, so we stepped in and you saw a fairly significant amount of trading gains.

So that's what I mean. It can be a bit patchy, but, over a longer period of time, it's relatively consistent. And so we feel like we have really good investment expertise. We have a good breed in the market. We have lots of asset management capabilities, and we're able to take advantage of opportunities when they arise within our risk appetite.

**Gabriel Dechaine - National Bank Financial - Analyst**

So these gains then -- a separate topic, but related to this. These types of gains, they're basically a present valuing of spread pickup. That stuff is going away or becoming a lot smaller in your IFRS 17, correct?

**Manjit Singh - Sun Life - EVP & CFO**

Yeah. So I think there's a different treatment of those gains, Gabriel, as you mentioned. So under our current accounting, we present value that excess spread over what we use -- we're generating over the discount rate that we use for our liabilities. That is what we do today.

In IFRS 17, that's going to be earned over time. So call it, more of a -- accrues into our income. So in fact, given the nature of our investments, given the size of our investments, overall, we don't expect there to be any significant impact to our run rate levels in IFRS 4 versus IFRS 17.

**Gabriel Dechaine - National Bank Financial - Analyst**

More broadly, when do you expect to give any disclosure on the impact of IFRS 17, specifically book value transition? Do we have to wait until your Q4 2022 annual report? What's the line of visibility?

**Manjit Singh - Sun Life - EVP & CFO**

Okay, all right. Maybe I'll just step back and give you a broader perspective, and then I'll cover your question on guidance as well. Overall, as I'm sure you have heard from others, is that we don't -- IFRS 17 will impact the reporting that we provide on our earnings, whether that's going to be
the geography of where we show certain things and maybe the timing pattern of when things come across. But it doesn't really impact the fundamentals of the business itself and how we're thinking about the business.

There are some things that are still not settled, which is why we can't provide any definitive impacts right now. So things like OSFI hasn't settled down or provided the final capital rules. There's still not final guidance on some of the tax treatments. There's still a couple of accounting things that are outstanding.

And so until things -- those things are settled down, I don't think it'd be appropriate for us to get into a lot of details about the impacts. So to your question of when will we be able to provide, that's when those things are clear to us, we will be able to provide you with the impacts.

Now what I can tell you in the meantime that might be helpful is just how you should be, or how we are thinking about it, in terms of the nature and the type of the businesses that we have and how they might be impacted by IFRS 17. And we kind of think about it in three buckets. So in the first one, you have businesses that we don't think will be very minimally impacted or not even impacted at all. And that's really our asset management businesses that are in MFS, in Asia and in Canada, as well as our group businesses. And those businesses actually comprise about 60% of our overall earnings. And those businesses are going to, as I said, have little to no impact.

Then there's the next group of businesses which have -- our insurance businesses that I would say have flow-through impacts. They're more investment-type vehicles, and like at par in our variable unit-linked business in Asia, and those would have more moderate impacts on transition. And that's another 20% of our businesses. And the remaining 20% is more of the traditional insurance businesses, and those will have broader impacts upon transition to IFRS 17.

But again, to my opening comments, I don't think, fundamentally, anything is changing. And when I say, fundamentally, things are not changing, the cash flows are not changing, the risk profile is not changing, the lifetime margin is not changing. It's really the income recognition pattern under IFRS 17 that might change. So overall, given the dynamics of those three elements, we feel we're well-positioned to manage for the impacts of IFRS 17.

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**Gabriel Dechaine - National Bank Financial - Analyst**

Any thought of putting more of an emphasis on the cash flow statement? Because, as you said, a big chunk of your business is more traditional, normal accounting, if you will. And the risk I see with IFRS 17 is that investors that see insurance accounting as already a confusing thing and a detractor from interest will become even more so. And your advantage is that you do have a lot of businesses that are more straightforward.

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**Manjit Singh - Sun Life - EVP & CFO**

Yeah. I think we have always tried to provide clarity around the key drivers of our earnings and to kind of separate out what we think our core underlying earnings versus other elements that are more reporting related or maybe timing items. And I think we will continue to do that for investors.

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**Gabriel Dechaine - National Bank Financial - Analyst**

Okay. What have we got here? Buybacks. On the last call, you didn't sound like you'd be -- you've got the buyback program improved, but it didn't sound like you'd be too active until you close the DentaQuest acquisition. Is that truly the case or was I misinterpreting?
Manjit Singh - Sun Life - EVP & CFO

Well, I think we -- no, as you know, maybe if we step back -- and we've talked earlier about how we think about capital deployment. And really, our priorities are, first of all, to kind of put capital back into our existing businesses. We have businesses that are growing that generate really good return on equity, and so we are always looking for opportunities to continue to grow those businesses.

The second priority for us is to continue to grow our dividend. We have been very clear that our intention is to grow our dividend in line with our earnings growth. And as you know, our medium-term objective for earnings growth is 8% to 10%.

Thirdly, we look at acquisition opportunities. We have been very active on that front. And even during the COVID period, I think over the two-year COVID period, we have done over 15 transactions, some of them small, some of them larger, like DentaQuest. But I think we have very good opportunity set in terms of the types of businesses that we are in. And frankly, our brand and how we partner with people -- we get a lot of approaches to work with people, and so we expect there to continue to be opportunities for us to build out some of our businesses. And then, of course, if we aren't able to do any of those first three things, then we would look at share buybacks.

In terms of our DentaQuest acquisition, obviously, we are holding the capital for that right now on our balance sheet to close that transaction. Like I said, it's a number of months away. But even after DentaQuest, we will continue to be well-capitalized, and we will continue to look for opportunities that will help to grow our businesses.

Gabriel Dechaine - National Bank Financial - Analyst

And then we obviously have to close this one, so it's a bit premature to ask about the next deal, but I will, anyway. More conceptually, that -- you've made a number of acquisitions in the US, in the group business specifically. You've made a number of acquisitions to build out SLC. If I go to your four pillars, Asia is one of them definitely. Is that the next area? Because it looks like you've done what you need to do and then prior to.

Manjit Singh - Sun Life - EVP & CFO

Yeah. I think broadly speaking, Gabriel, I think there's always opportunities that we're looking at across all four of our business pillars, but you are quite right in terms of how you stylized the work that we have done already. I think in Asia, we've been clear that we want to be an end player in the attractive markets that we're in. We have got scale in many of our markets, but there are some markets where we'd like to add more scale, namely in Indonesia and Malaysia. So if there were opportunities there, we'd take a look at that.

SLC, again, as you mentioned, we have done a lot of great work to really build leading capabilities in that space, and we're very comfortable with that. But if there are opportunities for tuck-ins in that or on distribution side for that, we would look at that.

In Canada, we are a leader across pretty much all of our businesses, so we don't really need to do any kind of big acquisition. But if there's opportunities to partner with people to strengthen and extend our businesses, we would look at that. And in the US, there's always opportunities in the group space. It's a big ecosystem, and I think we see other ways to continue to participate in that ecosystem.

Gabriel Dechaine - National Bank Financial - Analyst

And I should maybe let off. But you've been a CFO at a life insurance company for a year, your background in banking. Like, what's been the biggest transition adjustment?

Manjit Singh - Sun Life - EVP & CFO

Obviously, IFRS 17 has been, as you mentioned, a big focus. And then it's really changing the way, as we talked about earlier, we're presenting stuff and, obviously, different nature of the businesses. But overall, I think if I look at our objectives and what we're trying to do -- I mean, if you look at
our earnings, our MTOs are 8% to 10% in EPS growth, a 40% to 50% dividend, a 16%-plus ROE, that's quite similar to what we see on the banking side.

Gabriel Dechaine - National Bank Financial - Analyst
So you should trade at a premium to banks, perhaps?

Manjit Singh - Sun Life - EVP & CFO
Well, I'll let you decide that.

Gabriel Dechaine - National Bank Financial - Analyst
All right. We're good?

Manjit Singh - Sun Life - EVP & CFO
All right, thank you.

Gabriel Dechaine - National Bank Financial - Analyst
Thanks for coming again.

Manjit Singh - Sun Life - EVP & CFO
All right, a pleasure to talk to you, Gabriel.

Gabriel Dechaine - National Bank Financial - Analyst
Likewise.