29-Mar-2017

Sun Life Financial, Inc. (SLF)

NBF Financial Services Conference

Copyright © 2001-2017 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

OTHER PARTICIPANTS

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

MANAGEMENT DISCUSSION SECTION

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

So our next speaker is Colm Freyne. Colm is the EVP and Chief Financial Officer of Sun Life Financial. Colm joined Sun Life in 2003, became CFO in 2009, saw the company's financials through a very interesting period for financial companies. And just – about two days ago...?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Two days ago.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

...it was announced that Colm is going to be transitioning from the CFO role to Chief Risk Officer role, so congratulations on that and maybe we can dive into it, so have a seat. And let's talk about MFS, always a big topic of interest. Q4 was quite disappointing for the market, very difficult period for a lot of companies, obviously, from a volatility standpoint. Based on what I'm seeing, though, in the public disclosures for January and February at least, it looks like AUM levels have recovered.

Copyright © 2001-2017 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

I don't think we're in the inflow period yet, but at least some of the volatility impact is not as – it's not been as negative for your AUM levels. Is it safe to say that Q4 was a especially negative – a mix of factors that were particularly negative for MFS and we're going to start to see some stabilization over the next few quarters?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Well, thanks Gabriel and thank you for having me here for this event. I always enjoy coming to Montreal and meeting with investors here and an opportunity to talk about Sun Life. So Gabriel has quite rightly dived right into MFS. Just to put it into context, of course, MFS is the main component of our asset management pillar.

So at Sun Life, we operate through four pillars. And in asset management – until recently, asset management was entirely comprised of MFS. And a couple of years ago, we did branch out, through the acquisition of Bentall Kennedy and a couple of other firms, into alternative asset management, being real estate and liability-driven investing and Prime Advisors, which is in the bond – muni bond market in particular. So we have about CAD 50 billion of assets under management in that space, but the primary assets under management in our pillar are MFS.

And MFS, like active managers around the world, has seen the impact of the shift toward passive investing. We had an Investor Day in March, so really only a couple of weeks ago and there's some useful material there for those who are interested in seeing what I think was a well argued case for active management. The paper goes through some of the reasons why passive management and passive investing has gained market share and that active management is still extremely viable and the addressable market for active management is very large. But there are periods in the cycle where flows tend to shift towards passive and we've seen that clearly.

I think in addition to that, MFS is both retail and institutional. And on the institutional side, there has been some rebalancing from certain clients because our institutional performance has been strong and certain clients then are taking some money off the table and moving to alternative investing.

And we also had a factor at play in the institutional space where we have some variable annuities that are on our platform from life insurance companies and in order for those companies to hedge their exposures more effectively, they find that passive investing is more readily amenable to hedging strategies. So [ph] we have a (03:43) number of factors at play. Certainly, the fourth quarter outflows were large.

We like to think of it though in the context of the industry, so from an industry perspective, we have been outperforming. Certainly on the retail side, our gross inflows have been strong and we have gained market share in U.S. retail. So difficult to say when this tide will turn. With $425 billion of assets under management, at the end of December, we're clearly a very significant scale, we're a profitable firm, we have the opportunity to grow in different directions. We have fixed income capabilities that we're building out. We have a blended research platform. We recently announced that we're opening an office in China to attract investment dollars from China that wants to invest in North America and internationally. So we have a very strong platform.

Copyright © 2001-2017 FactSet CallStreet, LLC

I think there's a lot of focus on flows. Certainly, the flows in the fourth quarter were negative at around CAD 10 billion but under the – if you look at the overall year, we'd had net outflows of CAD 1 billion or so in the prior quarters. When will this turn? It's difficult to say. As Mike Roberge said at the investor event, we don't get a lot of pre-notice as to when money will move out on the institutional side, but we have been building strong flows on some of the retail side, the Edward Jones platform, for example, has been a strong contribution.

So we're taking action but we're not overwhelmed by this. It's a period in the cycle, where, I think, active managers have been under a little bit of pressure and we'll just see how the year unfolds. In terms of our margins, they're still very strong, Gabriel and we have strong flows from MFS up to the parent company. There's no restrictions on the dividends and we take 80% of the earnings there by way of dividend. So from a value proposition to Sun Life, still a very, very strong and important part of our franchise.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

So if I go back to your 2012 Investor Day when you set a target for CAD 2 billion of earnings by 2015, which you exceeded. You broke down your expectations for each of the major business lines, including MFS, Canada, Asia and the U.S. MFS grew in the teens during that period, compounded annual growth of earnings. I don't recall the company breaking down how it expects its various segments to grow vis-à-vis the 8% to 10% EPS target. So could you give me a sense or us a sense of how you expect each of the businesses to perform and MFS included in that, obviously?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Certainly. And I think the 8% to 10% growth target that we've established as a medium-term earnings per share objective is the right way to think about the four pillars because then you can calibrate each of the pillars against that 8% to 10% and say, well, which is right on target, which is below, which is above.

So if we start with Canada, we think that Canada can grow at the lower end of that 8% to 10% range. We've been making investments in Canada for some time now and these are investments that will pay off this year and into the future. And at our Investor Day, Kevin Dougherty, President for Canada, spoke about the investments we've been making. And these investments were made during what have been some difficult periods. And as we all know, the Canadian economy has been challenged recently with the impact of lower commodity prices, energy prices, et cetera.

But if you think about our investments in Defined Benefit Solutions where we've built out a leading team and we are the number one in that marketplace; in our client solutions, where we're the leading player in the rollover business, we've got a very strong offering there. And that's very much of business that's geared towards the future because digital offerings, the ability to interact with clients, with consumers on the digital platform is very much premised on a very strong group platform.

We've revamped our segregated fund offerings, so we launched our Sun Life Guaranteed Investment Funds seg fund offering back in 2015. And so we've made a number of investments that are paying off in the Canadian space.

And then if we think about asset management, certainly the market overall is a tailwind to net income growth, revenue growth in the asset management space. We can all make our own projections as to what's a good long-term growth rate for the S&P 500 and for other world indices.

Copyright © 2001-2017 FactSet CallStreet, LLC

And the number that Mike Roberge put out, our President for – or our CEO for MFS at our recent Investor Day, he said, think of maybe a 4% organic growth rate in terms of the markets. And then, if we can get back to positive flows, you could think of maybe another 1% to 2% there and there's always leverage in that model because our expense base is very proportionate. We can certainly grow our assets under management without needing to scale up in terms of our back office systems, our client relationship management systems, our trade order entry systems, et cetera. We have scaled in terms of our compliance, regulatory systems, our worldwide platform. So we can look longer term to getting to the lower end of that range. At the moment though, I would say, we're a little bit below that.

And then in terms of our U.S. business, our U.S. business, as you may know, is now primarily a group business in the United States with the acquisition of Assurant, which we closed last year. We're now a large player in the U.S. group business. We have, based on business in-force, if we include our stop-loss business, we would think of ourselves as being a number six. So firmly in the number – in the top 10 in the U.S. in group. And that's a business that's very much levered to [ph] Main Street (9:51).

So, as payrolls increase, our business in-force increases, our premiums increase, so we can get a lift from that. We also have offerings that we can extend between the Sun Life legacy business and the Assurant business. We have a very full range of products, so we can cross-sell to each others' client base.

So, if you think about Sun Life, we had stop-loss; Assurant didn't have stop-loss. Assurant had a tremendous dental capability; we didn't have a strong dental capability on the Sun Life side. And outside of health insurance in the United States, dental, not surprisingly, is the largest product that group benefits, group plan members, group sponsors look for. So we have the second leading dental network in the United States. So we can grow our U.S. business above that 8% to 10% range when we think about what we've put in place there.

And then we come to Asia, and of course Asia is our – in terms of earnings contribution to the firm, is the smallest of the four pillars. But in terms of growth, it is running at the highest growth level. And if you look at the last five years, the growth in Asia has been very significant. We hit close to CAD 300 million of earnings in 2016 and that was up significantly if we go back five years ago.

Now, I would caution that the law of small numbers can apply here. So, if you start with a low base, a compound annual growth rate can look pretty impressive. But suffice it to say that Asia for us is very well-positioned for future growth and we are very confident that with the businesses we're in, with the partnerships that we have in Asia, we can continue to enjoy strong growth in the region.

And then if I think about other businesses that would detract from the overall growth levels, I would look to the UK, for example. The UK isn't one of our four pillars, but it's included in our corporate segment. We have strong earnings contribution from the UK, but it's not growing because that business is in run off. And every year, we lose certain policies, obviously, as the business matures. So that would be negative to growth and of course sterling and the depreciation of sterling as a result of Brexit and other considerations has not helped in that regard. So that would be on the negative side.

But I think if you can look at our overall 8% to 10%, you can see that we can be comfortable that that is a reasonable long-term objective. And when you look at the four pillars, you can see that we expect all pillars to contribute to that objective.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Copyright © 2001-2017 FactSet CallStreet, LLC

Thank you for the thorough response. The previous speaker talked about [indiscernible] (12:23) business similar to MFS's. They talked about a desire to bulk up the acquisitions. You're in a different position. You've got scale, yet margins are under pressure. So these are all industry trends. Sales are under pressure. And from what you're telling me here, growth expectations over the next few years might be in the mid-single digits on the bottom line. How does that whet your appetite for an acquisition to help enhance growth at MFS, if at all?

Colm J. Freyne

Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Well, I think the acquisition topic in the active management space is an interesting one and we've certainly seen a couple of announcements recent months. The most recent one being in the UK with Standard Life and Aberdeen, close neighbors at Edinburgh, deciding that they would get together. And I think there is a way for active managers to participate in consolidation in an industry without being an active participant in the actual consolidation.

So as consolidation occurs, clearly, there will be some disruption and clients may decide that they would rather look at alternative asset managers during that period. It's always a challenge in an acquisition to retain existing business and I think it's particularly so in the active management space.

So we do think that there may be opportunities, if the industry does go through some consolidation to benefit but not as a direct participant in the industry. As you all know in the active management space, firm's culture and the way of doing things is pretty important. Now that can sound at times like a little bit old fashion. You know there's lots of different ways of doing things, but I think relationships matter in the business and the role and the participation of the firm and the culture of the firm and the individuals is a factor and certainly gatekeepers look at that very important, how the gatekeepers think about this. So the consultant community, they may recommend that a certain firm not be considered because they're going through an acquisition, they're going through a merger. So those are all real considerations and that's just the way things operate in the industry and I don't see that changing.

So we definitely see opportunities. There's lot of active managers who are not adding value and I think in the case MFS, they've got a long track record of strong value add in terms of their investment style. Risk management is important. Their global franchise is important. Their ability to work through different scenarios and to provide value in the different markets has been important. So we think we're well-positioned.

I think we keep coming back to the fact that the addressable market is large. There's still lots of room for active management and the world is not going to go entirely to passive. There are trends and forces at play at the moment that are providing a headwind. But I think it's an opportunity for firms that take the longer term view to really excel at what they do and to demonstrate that they do have value.

Gabriel Dechaine

Analyst, National Bank Financial, Inc.

Q

Well, thanks for that. Back to the breakdown of growth expectations, the U.S. I think people might be surprised or curious about the expectations of the U.S. growing in maybe above your 8% to 10% expected range. I could see where it's coming from in the group business. You got some re-pricing that you're pushing through. You're about midway through that process. You've got Assurant synergies, some cross sell of dental product. Maybe talk about the dental cross-sell from Assurant into your existing client base. How easy is that? What do you have to do, and when do you start to see that playing out?

Copyright © 2001-2017 FactSet CallStreet, LLC

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Yeah. So I think there's a number of factors at play there. Certainly, the dental network is important, but so is the technology by which that's delivered to the plan members, so that if you have a mobile app, for example, where they can look up and see, well, is my dentist covered and how do I access a dentist in a particular part of the country that's part of the network; that type of investment has been made and we have those mobile apps.

So I think we're – if we think about the opportunity in the U.S. on the group space, it's a very large market in the United States. There are lots of players. It's a market right across the U.S. We're not regionally focused. We're right across the U.S. and we have the distribution and we have the different market segments covered.

The only market segment in the group space that we don't cover is really on the jumbo side. Those are the very large groups of employees, 100,000-plus type of employees. We're in the – it's the small end of the market, so 0 to 50. We're in the midmarket, 50 to 2,000. We're in the large, which is 2,000-plus, but as I say, we don't really focus on the – we don't go after the jumbo side.

And each market requires its own capabilities. So the distribution network needs to be targeted on each segment. The product offerings need to be designed for each. So in the midmarket, for example, the small end, we would have strong capabilities to assist brokers build their practice. It is very much a broker-driven business and so having very strong capabilities with the broker community. Individual, at the insurance – I should say, the group insurance business is still very much focused on their plan sponsors wanting to deal with broker who does a lot of the legwork for them.

As you can imagine, in the U.S., the whole topic of acquiring insurance for your employees is quite complex because you've got the health side which we're all hearing about with the discussions these days about the Affordable Care Act and with what may or may not be repealed around that. But that's a complex piece of the decision. We don't operate in that space. But then, you've got all the ancillary benefits and that includes all the way from dental, vision, STD, short term disability, long term disability, life insurance. And then we have stop-loss, which is a little different, because that is a little bit more related to the health insurance side. So it's a complex area and you can in the United States, and many companies do as they parse it out and they break it up. And they don't buy all the same services from the same broker. So different carriers are providing different services.

So will all that in mind, the more that you can do to make life easier for the sponsor, for the broker, with technology, with the full range of offerings, with excellent client service, service, service, service. I mean, it's true in so many industries. If you can do that well, it's an execution type business. If you execute well, good offerings, credible story, good brand, you're well set.

And, of course, for us, having a focus on that business counts for a lot. There are opportunities for us to leverage from Canada, where we are very strong player in the group space to spread some of the cost of technology, some of the cost of innovation and frankly to generate ideas that will work on both sides of the border.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Moving over into over to Asia, you did highlight that it's had phenomenal growth over the past few years. I like to describe it as a business that we didn't spend much time thinking about. And then, today, it's 10%-plus and growing in double-digits every year. So I pay attention to it more than I used to. The single factor that I think management's pointed to behind that growth has been strong sales momentum. So as you're going through a bit

Copyright © 2001-2017 FactSet CallStreet, LLC

of a management change, Kevin is coming back to Canada and then Claude is moving to the U.S., how is the team positioned to maintain that sales momentum? And then five years from now, where do you expect your earnings contribution will be from Asia? I guess I could do the math on that myself, but, shortcut...

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Yeah. So, I think, just in terms of the – some of the management changes, so Kevin Strain, who has been leading our Asia business for the last five years will be returning to Canada, and he'll be coming back at the end of May. He'll start at June, and he'll take over the role of Chief Financial Officer. And included in that role, he will also have oversight for enterprise services. So, Mark Saunders, who heads up enterprise services, will continue on the executive team, but Kevin will have that additional responsibility as a CFO.

And, I think, Kevin has done a great job in Asia. Clearly, he's done a great job in Asia, brings a lot of energy and a real understanding of distribution to the business in Asia. The reality, of course, is that we've been in Asia for a long time, so there was a good platform on which to build, and I think Kevin leaves an excellent platform on which to build to his successor, Claude Accum. Claude Accum is our Chief Risk Officer today, and he'll be heading out.

Now, Claude is a long time with Sun Life and is an actuary by profession and background, but he's also had, over the course of his time with Sun Life, a range of experiences including P&L experiences where he led the individual life insurance business in the United States at one time. He led the 401(k) business that we had in place at one time with MFS. And he also led, importantly, the Group Retirement Services platform in Canada before he moved into the corporate function where he took on the Chief Risk Officer role.

So, Claude will be in a terrific position to continue the growth in Asia. He brings, obviously, a deep understanding of risk management, but he also brings an understanding of how Sun Life operates as an organization, how to leverage the organization, how to bring the best of Sun Life to bear to work with our various partners in Asia, to drive forward our agenda there.

And partnerships in Asia are obviously very important and different people across the company have relationships with the region. So, for example, in my role as CFO, I sit on the board of Sun – Birla Sun Life in India where we have a life insurance company and an asset management company, and I would expect to continue in that role. When I move to the Chief Risk Officer role, I'll continue to be involved.

So, Asia for us today is large, complex, and it needs multiple connect – points of connection in order to drive forward all the various opportunities we see there. The role of technology is another interesting example. In Kevin's new role, he'll be taking on, as I say, more direct involvement with technology. And I do think in our industry, along with the financial services more generally, certainly the banking industry, there's a lot of talk these days about fintech and how it might affect different aspects of the banking industry.

Property and casualty, we hear a lot about telematics, we hear a lot about how technology is impacting that. We don't hear quite as much on the life insurance side, but I think there is a lot of innovation taking place in the life space as well. Certainly, on the wealth side, we're all aware of robo-advisor platforms and the like. There's going to be more in that space.

But I think on the life side, on the underwriting side, for example, different ways to think about underwriting, different ways to think about big data to do the risk analysis, it is interesting. The actuarial profession, obviously, is very strong and the whole field of policyholder behavior, thinking about anti-selection, thinking about ways to select and manage businesses. It's a great opportunity, I think, with big data for the profession to take a bigger

Copyright © 2001-2017 FactSet CallStreet, LLC

step forward around how to engage in some of that thinking, how to be at the forefront around data analytics, artificial intelligence and the like.

So, I think with all of – long answer, but I think the short answer is we're going to really continue to focus very much in Asia. We really like the opportunities and the prospects that we have in the region. And one person isn't going to do it all, so there's going to be a lot of people at the wheel. But Claude will certainly be a very strong proponent of managing that business going forward.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

I asked you about the M&A potential at MFS, but it didn't sound like much was going on there. But if I look at your balance sheet, lots of debt capacity, lots of cash at the holding company. Is Asia a potential area of interest? Generically, I imagine it is, but there are some opportunities as we speak in bancassurance in some countries where you're not necessarily present right now. So how interested are you in expanding that area inorganically?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Well, bancassurance is a big topic in Asia, obviously. And if we think about the countries we're in, I think that's really the starting point for us when we think about what we might want to add in the region. So in India, for example, operating with the Birla's, we have a very strong partner, we have – we did acquire. We increased our ownership level in India last year. We went up to the maximum allowed under statuette which is 49%. So we now own 49% of both the life insurance company and the asset management company.

And in India, the asset management company is a very significant player in the fund industry there. It's number four player. It has a very strong investment performance. Total assets under management, Canadian dollar terms, CAD 40 billion. Our share of that CAD 20 billion and that's a business that's growing quite rapidly. So when we think about Asia, we have to break it down by market and then we have to also break it down by activity. So we don't need to acquire anything in India in order to be able to grow.

Bancassurance in India is a complex area. There is a lot of regulation around what banks can and cannot do around the platforms. But generally the trend is to allow banks to move to multiple partners, and we think we'll be able to participate in that as that happens.

And if we think about a country that we went into more recently, Malaysia, we have strong bank partner there. So we're in a good place there. We have a sovereign wealth fund as our co-investor in the business in Malaysia. And then we think about opportunities there, it might be around the agency, for example, to build that out.

Another country we went into fairly recently was Vietnam, and we went in with a public sector entity PetroVietnam. And that relationship, we did not continue with that. We've decided that we will own the business ourselves and we bought up our interest in that entity over the past year. So, again, there, it's building out agency and potentially we would look at bancassurance opportunities there. But they tend to be at the local country level as opposed to a regional type of arrangement, because again you have to look at where is the maximum benefit it tends for us, it tends to be at the local country level.

So we don't see any pressing need to acquire in Asia. And we have lots of opportunity from an organic perspective. Some of the prices for properties can be quite high in Asia, particularly in Hong Kong because you do have a factor to play there where investors from the Mainland are moving out of – moving some of their

Copyright © 2001-2017 FactSet CallStreet, LLC

investment funds into Hong Kong and consequently they are paying some fairly substantial prices for properties in Hong Kong.

But again, we have a business in Hong Kong that is quite vibrant and has been growing at a decent rate. So we, again, don't see a pressing need there. Although we would look at a local bancassurance opportunity if one were to arise.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Just before I forget, any questions? Yes, I see one.

Q

[indiscernible] (27:34-27:44).

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Yeah. So, if you think about our capital structure under LICAT, we don't see any particular change there. So, if you're thinking will we need to do any debt issuances, I'm not quite sure what's the question about – the assets we've invested in, or are you talking about our capital structure?

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Which entity would it...

Q

[indiscernible] (28:03-28:08).

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Yeah, that we would issue. So, I don't expect that there will be a change on the instruments that qualify as available capital today. We do expect that to continue. I think at one time, there was some talk about whether NVCC would apply in the life insurance space. That argument hasn't been finalized at this point. But certainly, I think, from a regulatory perspective, the regulator understands that the banking industry, the life insurance industry are different and there are reasons why you might have some different treatments. But, no, I think you could assume that subordinated debt, pref shares, the type of instruments that we've been issuing and the kind of magnitudes that we've been issuing, we would expect that to continue.

Q

[indiscernible] (28:51).

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Copyright © 2001-2017 FactSet CallStreet, LLC

Again, that's more of a situational for each company to decide on where do they want to issue from. Do they want to issue at HoldCo? Do they want to issue at the operating company? That's much less of a LICAT consideration. That's more of a specific strategy for each company. We at Sun Life have chosen to issue at the holding company, and we have a rationale for that. We think it's the most efficient for us and we think it gives the greatest capital strength in times of stress, which we think is when capital really matters in periods of stress. And that's why we've chosen to do that. And the spread between issuing there and at the operating company has been modest, so it hasn't penalized us. And we think it's a good insurance against the time when you really need the capital.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

So balance sheet optimization is a bit of a buzzword for financial services companies. That means getting rid of businesses you don't like anymore because of regulation or the environment. Sun Life made a very big decision in 2011 to get rid of the U.S. VA business based on pushback at that time. It turned out to be very good decision. So, we've kind of moved on from there. But are there any other businesses today and with maybe a different perspective on insurance today from the market that you might opportunistically look to exit? In the UK, for example, as you mentioned earlier, it's going to detract from your growth. I know it doesn't consume that much capital, but maybe there's that or something in the U.S. How active are discussions on that front?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Well, I think it's an important topic. When we think about our business, and I mentioned at the outset the four-pillar strategy, the real benefit there of course is diversified strategy. But diversification comes in so many different forms. So you can be diversified by geography, you can be diversified by pillar, you can be diversified between protection and wealth, but you can also be diversified between active and runoff.

And runoff has a role in the life insurance industry, it always has had, because our products last for a very, very long time. So products and strategies that worked 40 years ago may not work today, and there's nothing to be ashamed of around that. That's just the way life is. Times change. So having a business that was successful 20 years ago but maybe deciding 10 years ago to put it into runoff, that's okay.

The challenge that you would have is if you have too much that's in runoff, and therefore too much of your energy and your scarce resources are spent managing something that can't possibly grow for you in the future. You can optimize, and I wouldn't want you – I think, Gabriel, you used the word detract, and of course, you can imagine I'm always sensitive to the use of language. I don't see the UK in any way, shape, or form detracting from the Sun Life story. It's just that it's not going to contribute to growth, because inherently it's a runoff business. But it is also a very positive force for us, because we take earnings from the UK. We have dividends from the UK. We got a good return on the equity in the UK.

But at some point, and I've made this point before, we will not settle the very last policy in the UK. There's an active market for consolidation in the UK, and at some point, it will make sense to be part of that consolidation as opposed to running it off to the very last policy, which by the way, takes place long time from now.

We have taken the hard action that we needed to take, and it was a very well-deliberated decision to make that action a number of years ago, because it's not just about the financial impacts. A large part of it is how much management time and attention it's taken up with runoff businesses. In the UK we have a strong local team, we have a strong local board. So it operates very effectively. But if you have a very large business that's in runoff, it does take a lot of time and attention that's not spent on the things that matter for the future whether it's in new

Copyright © 2001-2017 FactSet CallStreet, LLC

partnerships, new technology, new products, new capital allocation decisions. So, we think on that front that there's nothing pressing, but at some point, we likely will take further actions around the balance sheet.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Now, interest rates and the impact on the earnings, everybody is curious about that. And then at you Investor Day you did – and then in your Q4 call as well quantified some impact on new business stream that's going to go down, good for earnings. But the sense I'm getting from all the companies, this is my view as well, that don't expect too much too soon. We're still in a low rate environment. What kind of rate environment do we need to see for you to get excited about your earnings growth?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Yeah.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

...outside of what's already in place?

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

Well, I think, there's really two ways of thinking about it. Oftentimes, investors would look at the balance sheet of the company and say, if rates move up by 50 basis points, is there some kind of a pop that we're going to get as a result of that in terms of the earnings impact. And, yes, often there is, but it's often a bit muted because companies quite rightfully have taken actions to manage their balance sheet, to manage their capital position because for every uptick there can be a downward move as well.

So that one-time interest rates move up, we've all decided that there's a reflation trade going on, interest rates move up by 75 basis points, that's of limited value, frankly, from the point of view of the one-time impact. The real benefit, of course, is that, if you have a higher interest rate environment, that suggest that there's more growth prospects in the real economy and that's what gets I think, us excited as a management team and you hopefully as investors because now we're talking about something that's more sustained. And more sustained in the sense that higher interest rates mean that individual life policies will illustrate better, so that when you're out selling product, people have less reason to sit on their hands, which they often will do if rates are extremely low and we saw that in Canada last year when rates at the 30 year level reached extremely low levels.

It's a – the low rates are symptomatic of something which is often a period of great uncertainty. So slightly higher rates is really often symptomatic of a feeling that maybe the economy is growing a little better and that's really what matters to us. And so therefore, it doesn't take rates to be a lot higher, it just takes rates to be a little bit higher for there to be a generally more positive feeling around the space.

And I think we're well positioned on that front. We don't need anything heroic to happen in order for us to be able to achieve the growth targets that we've set out.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

And to be clear, your 8% to 10% did not contemplate...?

Copyright © 2001-2017 FactSet CallStreet, LLC

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

A

It does not contemplate the U.S. 10-year treasury being higher by 75 basis points anything of that sort.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Okay. And I think that is all we have for time. We could sneak in one more question, if there's any from the crowd. And, well, thank you, Colm. I appreciate it, and good luck in the new role.

Colm J. Freyne
Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Thank you very much, Gabriel.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.