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# EDITED TRANSCRIPT

SLF.TO - Sun Life Financial Inc at Barclays Global Financial Services Conference

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## CORPORATE PARTICIPANTS

**Timothy Deacon** *Sun Life Financial Inc - Chief Financial Officer, Executive Vice President*

## CONFERENCE CALL PARTICIPANTS

**Alex Scott** *Barclays Services Corp - Equity Analyst*

## PRESENTATION

**Alex Scott** - *Barclays Services Corp - Equity Analyst*

All right. So we're going to go ahead and get started. First, I want to welcome and thank Tim Deacon for being here, CFO of Sun Life. It's very much appreciated and looking forward to the conversation.

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## QUESTIONS AND ANSWERS

**Alex Scott** - *Barclays Services Corp - Equity Analyst*

Wanted to start off with more of a broad question. You guys hosted an Investor Day, I think it was around a year ago, give or take. Wanted to see if you could talk about, what are the things that you feel like you're beginning to execute on versus some of the things that you're going to be really focused on in the next couple of years kind of portion of the more medium-term plan.

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**Timothy Deacon** - *Sun Life Financial Inc - Chief Financial Officer, Executive Vice President*

Sure. Well, good morning, Alex, and a pleasure to be here. Thanks for having me. Maybe I'll take us back just a quick sec. Almost a decade ago we made a strategic decision to pivot ourselves towards capital light businesses and to really accentuate our asset management capabilities, and over the past decade, that strategy has really paid off for us. At this point we have a really well diversified business mix of 40% of our earnings coming from Asset Management globally. About a third of our earnings coming from group health and protection type businesses, and that leaves about a quarter of our earnings coming now from individual life insurance, so really well balanced mix and have executed very successfully against that.

And last November when we had our Investor Day, having achieved all of our financial objectives that we set out, we decided to update our Medium-term financial objectives and went out with an industry leading 20% return on equity objective as well as a 10% earnings per share growth and maintaining our common share dividend payout ratio between 40% to 50% of our earnings.

And those are really the mathematical outcomes of our projections, so those weren't set to be stretched or overly ambitious targets. Those are ones that we felt that we had the confidence based on the trajectory and the business mix that I described. So if I impact that further, we're looking to grow our private asset management businesses earnings by 20% plus over the medium-term. Our Asia business 15% plus, our U.S. business 12% plus, Canada 6%, and then MFS to grow in line with equity markets.

And thinking about the work that we have ahead to help continue to deliver on that, in SLC we have upcoming buy ups of the remaining minority stakes of the private asset affiliates that we've acquired over the last number of years. So our real estate subsidiary, BentallGreenOak, as well as Crescent, we will be completing those in the first half of next year.

And with the completion of that, we'll have really built out a world class leading private asset firm, so we have deep expertise across real estate, private credit, infrastructure, and retail distribution. In Asia, we operate in eight markets. We split those sort of between developing and mature markets, and so in our developing or scaling businesses, these are areas like Indonesia, Malaysia, Vietnam, and China. And then on our mature businesses Hong Kong, Singapore, Philippines, where we're the largest insurance company in that market, and our International business overall, including India.

So we're really looking to continue to scale in those businesses. In the U.S., we're committed to our 12.5% earnings target, notwithstanding some of the short term headwinds that we've been experiencing across the industry, particularly in our Dental business.

So we'll be looking to reprice our Medicaid businesses in the near term, and then over the medium-term really continue to grow and scale the rest of our Commercial business in that business line. And as well as leverage our leading position in stop-loss, we're the largest independent underwriter of medical stop-loss, and we have an at-scale business in Employee Benefits.

And in Canada, we serve one in three Canadians, so we're really looking to grow that business across Health, Wealth, and Protection businesses, and then finally MFS really helping to drive to return that business overall to positive net flows.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Great, that's helpful. It's an overview. I guess if we dig into Asia a bit, that, that's a place where I think the last couple quarters in particular you've had very strong growth in some of the regions, Hong Kong, Indonesia in particular. As we think about that segment and some of the things you're doing to fuel that growth. What are the underlying drivers and what are you focused on over the next year or two? I mean you look in more like bancassurance, like are there things that will continue to fuel that.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. We've been very pleased with our strong, consistent performance across Asia, as you noted. We've had double digit growth over that market for a while now and in the first half of this year we're up 13% over last year, last quarter we're up 15%. And some of the key metrics that we really look closely at in the Asian markets and in Canada, we use the IFRS accounting regime as in other parts outside of the U.S. and there's a Contractual Service Margin as being a key measure for the future profits of that business, and we've grown our CSM 23% over the last year and our new business CSM 27% and that's really been anchored off our Hong Kong business. That's been a core part of our market there.

We've had huge success from the investments that we've been making in distribution there. So we've had record sales last quarter. We've had double digit growth across all of our channels. So on the bancassurance side that you referenced, we did a partnership with Dah Sing Bank. That's been ahead of our expectations over the last couple of years.

We've been building out our agency force. We're the fastest growing agency force in the Hong Kong market, and then we've been continuing to grow and diversify our broker channel, and that's been a huge part of the success in that market.

So when I look across the region, we have over 25 banking relationships and so I wouldn't say that we're looking actively for the next banking relationship. We're just continuing to focus on making those work. We're obviously always interested where there's partnership, but we've developed a really good playbook now in terms of leveraging our expertise.

I might touch on Indonesia as a market for a moment as well because I talked about our scaling businesses. We entered that market 30 years ago, and have had huge success. Earlier this year we announced an extension of our existing bancassurance relationship with CIMB Niaga. They're one of the largest private wealth banks in the region, and that relationship has been off to a phenomenal start since that extension.

We're up 57% year on year in sales. The reason we like Indonesia as a market, it's, first of all, it's the most populous ASEAN country, so it's got a great population base. It's got a very low insurance penetration, so about 0.8% of the eligible population has insurance coverage. So there's a huge upside there. It's a growing market. GDP growth over 5%, so that's quite healthy relative to more established markets, and they're also one of the most digital economies, so that really bodes well with our digital capabilities that we've been building out. So those are just a few examples of where we're seeing great strong momentum in Asia.

**Alex Scott** - Barclays Services Corp - Equity Analyst

So, next one to see if you could talk a bit about the ways in which you can leverage Sun Life's broad capabilities in Asia. I think you've talked some about this on recent earnings calls already, but what are the ways you can do that, to accelerate even further, maybe some of the distribution things that were mentioned there. And I guess in particular the asset management products I'd be interested in.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So Asia is such an exciting market and as I said, we're in a number of different markets across the region and because of that low insurance penetration, today it's very much a high savings and wealth market as well as a health insurance. So we're well positioned there.

So maybe I'll start with product for a second and then we can pivot to distribution. On the product side, we are the third largest provider of mandatory provident fund in the Hong Kong market. That market just recently moved to have all the administration done centrally by the government, and I think that will help open up even more opportunities and reduce the cost for participants, which we think is a good thing.

So that really leaves great opportunities on the asset management side, and we have a very low percentage of our own proprietary products in our MPF platform currently, certainly relative to the larger players in the market. So that shows a great opportunity for us to add more of our own internal asset management capabilities where we have really strong performance, allows us to offer an attractive fee, so it's a better proposition overall for the Client.

We're one of the largest High-Net-Worth insurance providers globally, in fact, and Hong Kong is a key market for that, as well as other parts of the market. And so bringing our asset management capabilities to the High-Net-Worth market has been a key strategic focus. So our products across Sun Life Capital, our private asset arm as well as MFS on the public side is a huge opportunity.

And then we also see an opportunity to leverage the 25 banking relationships that we have across the region to also offer SLC product as well. So really good opportunities to deploy our capabilities based on the footprint that we have on the insurance side.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

So before we move off of Asia, I wanted to ask you what about the competitive environment and just what you're seeing in new business trends, the value in new business.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure, so I spoke a little bit about the CSM growth. I think Asia is obviously a very competitive market, its high growth. Where we see the most competition is in our core market in Hong Kong and particularly that broker channel that I referenced that we've been growing and doing quite well at. The industry has become quite competitive from a pricing perspective, from a distribution, in terms of broker compensation, and so much so the regulators in that market are actually seeking to help provide some guidance in terms of limits on this broker distribution compensation as well as on some of the pricing.

We've always been very disciplined on our pricing. In fact, that's a hallmark of Sun Life across all of our markets, and so we haven't seen too much impact of that coming through just yet. We've been able to maintain our margins and our pricing. And if you look at CSM over sales, that's at 41% for us. So that means the future profit of the sales that we're writing is at 41% and that's been up from 38%. So you can see that we're growing our sales and doing that profitably. And so those are key performance indicators that I think are helpful for people to look at in that market.

**Alex Scott** - Barclays Services Corp - Equity Analyst

Alright. So next, if we pivot over to SLC management, can you talk a bit about some of the success you've had attracting new capital? What's driving that and what the pipeline looks like looking at the back half of the year?

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. We've had such great success with our private asset capabilities. Last year was a record fundraising year for us. We raised over \$13 billion of new capital into our products and funds. Year-to-date we're already at \$10 billion, so we're well on track to be able to exceed last year's record target. We did \$6 billion last quarter alone.

We've had great traction across all of our asset classes and markets. So just to give you a couple of examples, we closed our fourth value add fund in real estate. It was an Asia fund that we had in that market, a huge success. We had large catch-up fees as a result that came through in our first quarter results. Our private capital or private credit business crescent has done exceptionally well in fundraising. Obviously, there's been an insatiable demand for private assets across all markets.

They've had great traction with their flagship funds, non-traded BDCs. They have a credit solution offering. Some of those funds are still in the market, and so we see a very strong pipeline ahead. And I would also mention that's on the capital raising, but also deployments are very important.

One thing to attract the capital, but then putting that money to work in attractive opportunities to actually meet the return and investment strategies is another thing, and we've seen great opportunities again given our global footprint. We had 6 billion of deployments last quarter alone as well too. So we're really seeing really nice opportunities from all the relationships and the scale that we've built in these markets.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Can you talk about some of the JVs that you have there? I know there's an opportunity to buy in further in certain places and expand through sort of, just furthering some of the M&A you've done already. So maybe you can remind us of, what that looks like and just maybe also broader interest in M&A to build on what you have there in SLC.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. I had mentioned earlier that a key priority for us in our SLC, our private asset business is completing the remaining buyups of the private asset affiliates that we don't own. So for BentallGreenOak, that's our real estate arm, it's about \$80 billion of assets under management. We own 56% of that business. We'll be completing the remaining buy up in the first half of next year, and on Crescent we own 51%, so we'll be completing the remaining buy up there.

In total that's about \$2.1 billion Canadian for that, those completions. And the nice way that we set up these businesses, these were acquired with an earn out over five to seven years at a fixed multiple. So the incentive was to grow EBITDA over that period, which has grown exceptionally well and so created a lot of value.

But those multiples are 10 times to 12 times as an example, and you contrast that to some of the private credit deals we're seeing in the market that are north at 20 times multiples. There's significant value appreciation that we've built in those businesses from those teams. So that would be near impossible to replicate today in terms of the franchise and the capabilities that we've built out.

So that's the main priority. We wouldn't see -- after that we have all the broad capabilities that we need to be able to deliver on our plan and the Medium-term objectives that I've said before, it's not conditional or dependent on further M&A.

We may be interested in other bolt on, tuck in acquisitions that might complement the existing capabilities that we have, but that would be opportunistic and if the return criteria met our thresholds and our discipline and we have the confidence to be able to execute.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Got it. Okay. If we move into MFS, a year ago, I think you talked more extensively about building out defined contribution pensions, active ETFs, the SMA business, et cetera. Can you give us an update on how some of those things are going.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure, I think you hit the key highlights in terms of our growth areas. I mean, MFS is about a \$600 billion asset manager really known for its strong equity capabilities as well as fixed income. Obviously, the whole U.S. active equity industry has been in outflows for a long period of time. MFS has not been immune to that, but similar along with the industry.

We've seen a lot of growth, I would just say, outside of the U.S. in terms of non-U.S. assets, so International, Global x U.S. as an example. And then on some of the product lines that you touched about, fixed income has been a huge focus area for MFS. They have about \$80 billion, of that \$600 billion is in fixed income.

MFS has invested heavily around the capabilities and infrastructure and is at scale to be able to really be at an inflection point in the growth of that business. They've had phenomenal performance. 98% of the funds, the fixed income funds that MFS manages are in the top half of their Morningstar quartiles over their 3, 5, 10-year performance, so it's very strong.

We've actually just won an award at MFS this past year for having the best performing fixed income manager over the three year period as well. It has been an area of positive net flows for us. Last quarter we had a billion of net flows. We brought in \$6 billion of gross. So they're really starting to get momentum and traction as our brand and name gets out there from a fixed capability perspective, as it's been so well known on the equity side.

You referenced ETFs. MFS launched a suite of active ETFs last fall. Those have been off to a phenomenal start. They're now over \$0.5 billion in assets. We're one of the fastest growing active ETF providers. ETF.com awarded them the best new fund launch as a result. We see that as an attractive vehicle. Obviously, it has less tax consequences for many investors, and we're on track to be able to launch the next suite of funds in the second part of this year.

And then you talked about the fund contribution channel, that's actually a really important growth area for MFS as well. They're a top 15 provider in the DCIO space and are starting to see a lot of traction and interest from their strong distribution network.

And then finally retail SMAs, that's \$30 billion of assets for MFS and again very positive. So these are the green shoots of opportunity and growth as the equity markets, particularly in the U.S., we expect to over time stabilize.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Got it. So next, maybe we could talk about distribution and are the things you can push forward on that side that maybe in combination with all the initiatives that you just ran through can lead to positive net flows, any help you give us on thinking into the trajectory of that..

**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Yeah, sure. So distribution has been a core feature of MFS' success, and there are over 100-year company right and so a lot of long history in building out these capabilities. So on the institutional side, has really strong franchise globally in terms of the channels with the largest sovereign wealth funds, pension funds, family offices globally.

While we've seen some outflows on the U.S. equity side, we've seen rebalancing into other MFS products, that's been a great opportunity for the institutional distribution team. They're a powerhouse in the retail side. They're top 10 distributor of mutual funds and products in the U.S. market. That's been a crown jewel for MFS.

They have over 150 internal and external wholesalers that have been really squarely focused on driving that growth. For all the talk that we have around net flows, which is obviously important because that drives earnings. MFS is on track to exceed well over \$100 billion of gross flows coming in from that distribution arm and muscle.

We're also seeing new growth opportunities outside of the U.S., so in Europe in particular. Markets like Spain and Italy, you wouldn't necessarily have thought of those as being high growth areas, but they are for an MFS product offering online because those are very highly advisory networked countries, which bodes well for MFS' investing style and that long term orientation, and so some great traction that we've had on the distribution outside of the U.S. as well.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

That's all helpful. Let's flip over to Canada. I wanted to see if you could discuss the Wealth and Asset Management opportunity there.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So Asset Management is a key growth focus for Canada as it is in our other markets as well. We brought on a new head for our Canadian business, Jessica Tan. She joined us from Ping An where she was a co-CEO. She's just coming up a year mark and very early on in her tenure identified a great Wealth and Asset Management opportunity for us in Canada.

We're currently at \$200 billion, these are Canadian dollars of AUM and have plans to double that over the next five years. And how we're seeking to do that is from our leading position in Group Retirement Services, so we're the largest provider of pension assets and record keeping in the Canadian market, a little over \$160 billion of assets.

Our key growth area focus there is obviously attracting new Clients into that program, but obviously also in converting them into retail Clients as well through rollovers when they leave the plan or they leave their employer. And then being able to offer our private asset capabilities that I just spoke about, as well as MFS, there's a great opportunity to have our own proprietary products that are well performing assets and that will also help attract new Clients into those spaces as well.

We have a business, we call Sun Life Global Investments. It's about \$40 billion of assets as well. There's great growth opportunities from that and then, as I said, just leveraging our private capabilities more broadly. We also have a partnership with Scotiabank in which we partner with them to distribute our private assets, in particular, our real estate and our private credit, and we've had great growth to date on that platform as well.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Great. So if we move into the U.S., I wanted to dig into Dental a bit. Maybe first we could talk about some of the opportunities that you see in the Commercial space, and then we'll come back to some of the repricing efforts.

**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So we acquired a firm called DentaQuest in '22, it was announced in '21 and so right in the middle of COVID, and so that was an interesting time where people weren't getting to the dentist, but, obviously Medicaid rules and other things were still in place. So we have now worked our way through that part of the post Public Health Emergency, but DentaQuest is majority of the business is in Medicaid, so about almost 80% of the business coming from Medicaid.

So the Commercial opportunity was what we were really most excited about that business and what mostly attracted us to that platform, and that's because of the great technology and operational infrastructure that came with that business.

As a result of that business, we have grown from a very small tiny player in the Commercial space to now in total, including the Medicaid, the largest provider of dental benefits in the U.S. market, serving over 35 million Americans.

That technology platform allows us to be able to go after large plans. So we're small and focused on small case market. But if you think about Medicaid, if having the ability to onboard millions of members for a particular state gives us the flexibility, scale, and capability to be able to on board any of the largest companies in the U.S.

So we'd be in the bottom end of the top 10 dental benefits providers in the Commercial space. This will allow us to catapult ourselves into the top 5 and we have big ambitions to continue to grow in that area.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Got it. That's very helpful. So you mentioned on your last earnings call you're looking to optimize the Medicaid Dental business. Could you walk us through what are the different components to that? Is it all pure price or are there other initiatives that need to kind of go into that to get it where you see it going.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. Well, repricing is a pretty important component to that, we mentioned the Public Health Emergency. What's happened since then is we've seen a spike in claims, in particularly last quarter. We were trending quite favourably for a period of time, but now we've seen people are going to the dentist more frequently. They're using their benefits more. They're having more services done. The cost of those services have gone up.

So the repricing becomes really important. One of the nice features of this business being capital light is that it does reprice annually, but in the case of Medicaid that takes time. And many of the states look over a three-year cycle, and so they have two years of favorable experience where people aren't claiming, and now with a huge spike up.

And so we're laser focused on making sure that we continue to put the momentum behind that. They're contractually obliged by statute to reprice. So we expect this to come through time. It's just taken slower than expected. So in the meantime, our main focus has been growing Commercial, as I just spoke about.

And then also looking at our costs, as well as to do further automation and deploy tools like AI to help with our claims evaluation process. AI is becoming quite proficient at reading dental X-rays as an example, so that can help accelerate our ability to process claims. I've mentioned about onboarding Clients. There's still a fair degree of manual work that's involved to bring on new Clients. A lot of that work can be automated, so we'll be investing heavily in that in the near term, and that should drive scale and cost efficiency benefits as well.



**Alex Scott** - Barclays Services Corp - Equity Analyst

Okay.. That's all helpful. And I do want to come back to the tech and AI initiatives that you have, but before we go there, the U.S. stop-loss business, this is another business where, I think we all sort of look at the health insurers and, even some of the U.S. lifecos that have stop-loss, and they've had some pain, medical costs, inflation rising a bit, what are you seeing in your business?

What have you done to reprice and maybe remind us of what you're planning on doing in the next year. And if there's anything you can tell us about some of the cash payment trends you're seeing on the 1/1/25 block, I think that's what everybody's sort of sitting on the edge of the trying to figure out, if was there enough done for this year's book of business.

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So medical stop-loss is a really important business for us in the U.S. and one where we've enjoyed great scale and market leadership. We're the largest independent underwriter of stop-loss. We've been doing it for decades. We know that business very well. Last year when we saw the utilization increasing as well as the medical trend, the cost that you referenced.

For the pricing for the 25 business, we put through a 14% price increase to really capture those trends, and they've been long trends happening for a long period of time, particularly cost inflation. Medical costs in the U.S. have been going up high single digits for a long period of time now, and the specialty area, which often gets covered by stop-loss has been in double digits in the high teens or higher.

And so there's been really nothing too new in that regard. What was new was the severity that the entire industry experienced very surprisingly late in the fourth quarter, and so we had talked about that internally. And then externally around our pricing, and we felt that we were about 200 basis points shy of where our pricing needs to be to cover that increased severity. So we raised prices to 14%.

We felt we needed 16% to be able to preserve our target margins. This business is still profitable for us. It's still a great business, but we're shy of that 200 basis points. And our pricing discipline has really served us well there. Those are big increases, but there's also flexibility for plan sponsors who can look at their deductible levels, et cetera and figure out how much they want to self fund versus leveraging us because there's obviously still a huge need for stop-loss coverage.

And to your comment about the January 1 book of business, that is performing in line with our expectations thus far. So we don't see any trends or signs currently of any spike up in further severity or pricing that we had spoken about.

Now a word of caution, we're at about 25% complete on that block. So those of you familiar with that business, typically the claims start to come in in the fourth and fifth quarter after you've written that business. So for us that will be the fourth quarter of this year and the Q1 into next year. So obviously we have to wait until we see them.

The surprise last year came from a large part from hospital billing practices. We were dumped. It was almost binge bulk billing practices at the tail end. So we tried to leverage our market position to get more insights around billing practices, work with our largest health plan networks to have earlier insights. There's this term called 50% reports that looks at reports of claims that are at 50% of the deductible levels, and that allows us to look at those insights to figure out and extrapolate whether or not that those will actually hit the detachment points and become stop-loss claims. So thus far we don't see any signs, but it's obviously an area that we're watching closely.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

That's really helpful. Before we move away from the U.S., I do want to ask a growth oriented question. Can you talk about the platform capabilities. Some of the advantages you feel you have, whether it's, connectivity, APIs, and some of these cloud administrators or what are the ways that you're leveraging, you know what I think is an above average sort of investment in the tech platform when I look across the industry. What are the ways you're leveraging that to grow?

**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So I think the best example for that in our businesses is our Employee Benefits business in the U.S., we were a very small player over a decade ago. We acquired a firm called, Assurant and over the last 10 years really built out capabilities and scale there. We also acquired a small firm called Maxwell Health that brought a lot of tech capabilities with that.

And today we're a top 10 Employee Benefits provider. We serve 9 million Americans. We have almost \$2.5 billion of premiums, and so we now are at the scale where we can really compete. But it's a crowded and highly competitive market, and so where we found differentiation is in the tech, and that's obviously core to Employee Benefits offering. That's the platform in which we make payments and help administer employee health plans.

And the APIs that you reference has been a key differentiator because when we think about how we win business and compete against some of the larger players, it's about being easy to work with and deal with. And being easy to work and deal with given how fragmented the health market is in the U.S. where sometimes very often people have different dental benefits providers than they will from health and employee assistance programs, is creating APIs to connect, whether it's the payroll systems or the HR administrative platforms, we've invested heavily over the last number of years into those APIs to connect with firms like ADP or Workday and so the experience becomes very seamless.

The employees get a seamless experience so that they can get their benefits claims made on time and get paid in a very timely basis, and the employee plan sponsors love those because it makes less headaches for them and their HR departments and pressure on that. So we've been seeing huge take up that's given a great name for us and it's allowing us to move upmarket.

**Alex Scott** - Barclays Services Corp - Equity Analyst

Got it. Just to mention to the audience. As we get to the final stage, I may ask, open it up if somebody has a question. I just want to give you a heads up in case you're thinking through, wanted to ask something. But, before we do that, I want to come back to AI, just sort of on the same kind of line of questioning. What are the ways you're implementing that more broadly? What kind of efficiencies do you think you can get out of it? Do you foresee it being transformational over the next few years?

**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So we, like many organizations see the huge benefits and opportunities that AI will bring. We've had great success to date in our own application. Just to give you a few examples. Last quarter we announced Notes Assistant in our Canadian market. That's allowed our advisor network to summarize key Client meetings that helps free up their capacity on focusing, on helping our Clients meet their financial and health needs, saves time from administration.

It helps them with complex inquiries in terms of being able to understand product details or nuances, and we roll that out on our own independent private distribution network and that's one of the key differentiators we have in our Canadian market is that we have a captive distribution agency, so that's allowed us to roll it out quickly, take the success of that, and then offer that more broadly.

In Hong Kong, we launched Advisor Buddy, and that's a chatbot. I mentioned the strong recruitment that we've been doing in building out agency and the fastest growing in the market. Part of the way we can do that onboard agents is because we offer tools like this that helps them get up to speed on our products and be able to make inquiries. So that's a great efficiency play, saving time and capacity.

And then I would also say in our contact centers is probably where we've had the most efficiency there. So call summarization, being able to access sentiment in terms of how the Client responding and behaving and there's also an opportunity for them at the contact centers to have access to all of our information in real time.

We also see efficiency opportunities internally in our technology teams. We have developed agentic AI uses for high volume inquiries within technology, so password resets, as well as ordering new equipment. These are some of the highest volume intakes that we get within our own technology firm.

And I would say, even in finance as a function we've had success. We have a tax chatbot that allows people across the organization to input queries around tax reforms and tax changes, and there's certainly been quite a few globally over the past little while, so that was a huge volume of information and requests that we're getting within our own tax team.

This tool allows anyone to be able to query and diagnose. And we also see great benefits in finance to summarize controls, process documentation, things of that nature. You talked about efficiencies, initially these are about freeing up capacity within our teams so they can focus on higher value work, but over time we expect to see material cost efficiencies as well.

The investments in AI, as well as the benefits that we see from those are embedded in our Medium-term objectives. So it's a portion of contributing to our overall earnings growth, but we see even further upside beyond that as the AI matures and we roll that out more broadly.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Great. Do we have any questions from the audience? All right, I will keep firing away here. Capital management, one of the things you highlighted at your Investor Day was the strength of your capital generation and goes along with being capital efficient. What are the ways that you look to redeploy that, you touched on one with some of the JVs where you'll buy in more, but what are the other priorities you have?

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**Timothy Deacon** - Sun Life Financial Inc - Chief Financial Officer, Executive Vice President

Sure. So I touched on being capital light and being capital light means we can generate very strong capital and also cash generation. So you touched on our Investor Day. Last year we started disclosing a concept of what we call organic capital generation, and that's the net of shareholder dividends, and we have a target to generate about 30% to 40% of our underlying net income as organic capital generation.

And in the first half of this year we've generated over a billion of excess capital generation over paying our shareholder dividends on that metric, and would expect to finish the year in a similar space of about \$2 billion by the end of this year. And so that's been a great hallmark for us.

I mentioned MFS earlier, that generates 90% of its income is in cash generations. So that's been a really exciting feature of our company and it's helped fuel a lot of our growth. In terms of priorities, our first priority really continues to be organic investment back into our business. So those AI investments that I spoke about, growing our distribution internally and building up the agency forces, et cetera that I spoke about across Asia.

And then after that, the inorganic deployments, as I said, we're not dependent on M&A to be able to achieve any of our strategic objectives or Medium-term objectives. As I said, we could be interested in bolt on acquisitions that are of a smaller size just to complement existing capabilities, but we would remain very disciplined on that.

They need to meet our Medium-term objectives in terms of financial return. We have to have the capacity and ability to be able to execute, And I would say many of our markets and businesses, our priorities are already set. So that leaves share buybacks as a return to capital and we've been very active in that program. We have an active normal course issuer bid.

Last quarter we bought back 5 million of our shares. We launched a new program to purchase another 10 million of our shares. We're about 40% complete of that by the end of this quarter. So I would expect that we would continue to be very active on that front and complete that program.

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**Alex Scott** - Barclays Services Corp - Equity Analyst

Great. I'll give one more shot if anybody in the audience has a question? We have one up here.

Well, just wait one sec, only for the webcast to get the microphone. Thank you.

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**Unidentified Participant**

Hey, on the asset management side of things, how are you guys kind of thinking about integration risks because you kind of think like you've had all these different entities. I guess, you're going to kind of consolidate them into like one asset manager. How are you thinking about keeping your platforms together and making sure there's no kind of breakage as you integrate and become one larger enterprise?

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**Timothy Deacon** - *Sun Life Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah, great question. Thanks for that. The private asset affiliate companies that I spoke about, completing the remaining acquisitions in the first half of next year. It's been a key focus for us and you use the word integrate. We're bringing these together as a single platform in terms of its overall offering. Sun Life has a great track record of building asset management capabilities.

I mentioned MFS. We run that as a standalone business. It's got its own management team, its own governance. Similarly, on the SLC and the private side, we continue to operate that way as well too, and that's really important for our Clients that they maintain that independence from a corporate office perspective.

We're not going to tell those businesses on how to invest or which assets to invest in specifically. And so we've got a great strong track record of doing that effectively. A big part of our buy-ups is being able to allow our employees in those businesses to maintain equity in the business. We think that's very important from an alignment of interest perspective. It's sort of the environment that they've been used to prior to us and our partnership with those entities.

So part of the new platform that we have will be offering to employees the opportunity to participate in equity of that platform. And again that's a great way to ensure that there's alignment of interest in growing that business.

We see a lot of synergies in bringing together those businesses that allow us to be able to more readily distribute those products across our wealth distribution channels that I spoke about earlier, and it will also give us a chance to look at broader strategic partnerships externally look at vehicles like sidecars or we have a large pension risk transfer business in Canada as an example.

So, the advantages of leaving them alone, letting them be stand-alone and autonomous, but then leveraging the scale and breadth of what Sun Life offers has been our playbook and it's proven very successful for us to date and we're very excited of what this next chapter will bring as well.

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**Alex Scott** - *Barclays Services Corp - Equity Analyst*

Do you have any more to do one more? All right, well, we'll cap it there. We're just about a time, so thank you very much for joining us. Really appreciate it. Thank you everybody for being here.

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**Timothy Deacon** - *Sun Life Financial Inc - Chief Financial Officer, Executive Vice President*

Pleasure. Thanks, Alex. Thanks everyone.

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