Good morning, and welcome to the Sun Life Financial Q1 2023 Conference Call. My name is Michelle, and I will be your conference operator today.

(Operator Instructions) The host of the call is Yaniv Bitton, Vice President, Head of Investor Relations and Capital Markets. Please go ahead, Mr. Bitton.

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

Thank you, operator, and good morning, everyone. Welcome to Sun Life's Earnings Call for the First Quarter of 2023. Our earnings release and the slides for today's call are available on the Investor Relations section of our website at sunlife.com. We will begin today's call with opening remarks from Kevin Strain, President and Chief Executive Officer. Following Kevin, Manjit Singh, Executive Vice President and Chief Financial Officer, will then present the financial results for the quarter. After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management are also available to answer your questions this morning.

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

And with that, I'll now turn things over to Kevin.

Kevin Strain Sun Life - President, CEO & Director

Well, thanks, Yaniv, and good morning to everybody on the call.

Turning to Slide 4. We started 2023 with strong results driven by our execution capabilities and growth across both our health and protection businesses, highlighting the resilience of our business mix, and the importance that our clients continue to place on health and financial security.

This is Sun Life's first quarter reporting under IFRS 17 and IFRS 9. A special thank you to all the Sun Life employees involved in these efforts. With the adoption of these standards -- while the adoption of these standards will impact how and when some of our business results are reported, it does not change our strong fundamentals, capital strength or client impact strategy. While global markets remain...
challenging for our asset management businesses, we continue to see strong fundamentals and performance from MFS and SLC management.

MFS AUM has increased since the end of last year and net flows have improved year-over-year. SLC management fee-related earnings were up over 20% year-over-year on higher fee-earning AUM, reflecting strong capital raising and deployment across the platform. SLC Management also completed the acquisition of a 51% interest in Advisors Asset Management and are commencing the development of alternative products to meet the demand of high-net-worth individuals.

Sun Life U.S. had strong first quarter underlying earnings, reflecting strong premium growth, contributions from DentaQuest and meaningful improvement in mortality and disability experience. DentaQuest had strong business growth during the quarter with significant Medicaid and commercial business wins. These contract awards, along with other Dental sales in the quarter, will allow us to improve preventative care and oral health outcomes for an additional 650,000 members as they are onboarded over the next year.

Sun Life Canada also achieved strong earnings during the quarter, driven by growth across all business lines. We closed the sale of our sponsored markets business, releasing capital and enabling greater focus on growing the core segments within our Group Benefits business, while continuing to extend our focus to help our clients access health care and wellness solutions.

We maintained great momentum in Sun Life Asia, achieving 24% overall sales growth and over 20% insurance sales growth in 5 of our markets, including our 4 largest markets, the Philippines, Hong Kong, India and International. Notably, Hong Kong sales were up significantly, as a result of tailwinds from the reopening of the border with Mainland China paired with uplifts from new product offerings. Our Philippines business achieved the #1 market position for new business premiums and total premiums again in 2022. This is our 12th consecutive year leading the market in total premiums.

We also announced a 15-year exclusive bancassurance partnership in Hong Kong with Dah Sing Bank, where Sun Life will be the exclusive provider of life insurance solutions to Dah Sing Bank’s approximately 570,000 retail banking customers. We remain excited about the opportunity to further our growth in Asia as markets are open following pandemic restrictions and will leverage our quality distribution channels to meet the protection, health, savings and investment needs of a rising middle class.

Further to our strong earnings and sales performance over the quarter, new business contractual service margin, or CSM, of $257 million was up 50% year-over-year, driven by the impact of new insurance business in Canada and Asia. Total CSM reached $11.2 billion at the end of the quarter. Underlying ROE for the quarter was 17.3% and continues to trend towards our medium-term objective of 18% plus, reflecting our disciplined capital management and sustained emphasis on capital-light businesses. We also ended the quarter with a very strong capital position with a LICAT ratio of 148% at SLF. We announced a $0.03 increase to our quarterly common share dividend, demonstrating our commitment to continue deploying capital to shareholders.

Turning to Slide 5. This quarter, we delivered on several key business initiatives that drove our Client Impact Strategy. Helping clients access health care and coverage they need remains a top priority. In the U.S., we are seeing impactful results from our AbleTo partnership, which provides access to virtual behavioral health therapy and coaching for our members with cancer. We began offering this program in Q2 2022 and are already making a difference for participating members, where early results show a greater than 50% reduction in their anxiety, depression and stress levels. This is important as there is a strong correlation between mental health and physical recovery.

We continued to increase access to similar services in the first quarter, expanding our partnership, again, with AbleTo to offer Self-Care, an on-demand wellness program to support mental health for our life insurance members and partnering with GoodPath to provide digital personalized care and coaching to improve outcomes for members with certain disability diagnoses. These services help differentiate our offering in the U.S., while broadening access to programs that help people live healthier.

Furthermore, Sun Life Health Navigator, powered by PinnacleCare, is providing personal care navigation services to help members access timely and quality care as well as expert medical opinions with benefit members -- which benefit members with diagnosis and treatment plans. Recently, our services helped a member’s 8-year-old daughter with a severe eye injury, who had been recommended a
surgical procedure with a low success rate. A personal health advisor connected the member to an ocular trauma specialist who recommended they not do the surgery. As a result, the child's eye is healing, giving her mother comfort in making medical decisions with our support.

We continue to leverage our digital capabilities and product innovation to help clients achieve lifetime financial security. We recognize the importance of having a comprehensive financial plan that focuses on wealth, insurance and protection services. We're committed to providing our clients with the tools and advice they need to build financial confidence and navigate through important life stages.

In Canada, we enhanced the Sun Life One Plan digital tool, enabling clients to update their financial roadmaps directly, while collaborating with their advisors on personalized goals. We introduced this tool to retail clients in 2022 and then in 2023, extended that to over 750,000 Canadian GRS clients this year. Nearly 100,000 financial roadmaps have been created to date for retail clients in Canada using tools including Sun Life One Plan.

In Hong Kong, we launched 2 new products designed to offer clients long-term financial growth potential, which actively integrate ESG concepts into investment strategies. Client reception for these products is strong, contributing to over 20% of Hong Kong's Q1 individual sales. We're also embracing our responsibility to create a more sustainable and brighter future. Sun Life has made a commitment to being sustainability driven. It's critical to our purpose that we are focused on increasing financial security, fostering healthier lives and advancing sustainable investing -- areas we know best.

One key area of focus is climate change and Sun Life is committed to being part of the climate solution. We set a goal to achieve net zero greenhouse gas emissions in our operations and investments by 2050 and have established several interim targets for our general account and asset management businesses. To achieve our goal and contribute to the wider global movement to net zero, we continue to collaborate with advocate programs and policies that can help drive the transition to a low-carbon economy.

Furthermore, SLC Management continues to invest in assets that generate a stable and attractive yield and that generate a positive environmental impact. For example, this quarter, SLC Management invested in the construction of 2 new vessel builds that will support the long-term operation and maintenance of 2 offshore wind farms in the U.K., which supply power to 2 million households each year. These vessels will support environmentally clean operations and the use of alternative fuels.

Keeping on the theme of sustainability and our commitment to diversity, equity and inclusion, Sun Life was named among the companies in the Globe and Mail's 2023 Report on Business, Women Lead Here list. This is the fourth year in a row Sun Life was recognized for its commitment to achieving gender parity at VP plus roles and helping women thrive in Corporate Canada.

We're also pleased that Sun Life was recognized among America's Best Employers for Diversity by Forbes magazine in the U.S. And congratulations to Laura Money, our Chief Information and Technology Officer, for being recognized as one of the top CIOs in North America by Business Chief. Laura's been instrumental in driving our digital transformation and innovation efforts.

Finally, trust is at the heart of our business. And around the world, we continue to be recognized for our trusted brand. This quarter, Sun Life Philippines received the Platinum Award in the Life Insurance category in the Trusted Brand Awards for the 13th consecutive year, demonstrating our ability to make a difference in our clients' lives and helping us sustain our market leadership position.

While the external environment remains challenging and uncertain, we are confident that our diversified and capital-light business mix, strong capital position and prudent approach to risk management will allow us to manage through market volatility and more importantly, continue to help our clients achieve lifetime financial security and live healthier lives.

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

Manjit Singh Sun Life - Executive VP & CFO

Thank you, Kevin, and good morning, everyone. I'd like to begin by thanking all the teams across Sun Life who worked tirelessly to ensure a smooth transition to the new IFRS 17 and IFRS 9 reporting standards. This was a significant multi-year undertaking for Sun Life and the
industry, culminating with the release of our first quarter results today. The impacts of transition to IFRS 17 are generally in-line with what we had previously communicated.

The impact of SLF LICAT was an increase of 12 points, slightly better than the high single-digit estimate we provided in February as we continued to refine our estimates with the finalization of our dual reporting period. We are also reaffirming our medium-term financial objectives, including underlying ROE of 18% plus, up from 16% plus, underlying EPS growth of 8% to 10% and underlying dividend payout ratio of 40% to 50%.

Now let's turn to Slide 7, which provides an overview of our first quarter results. Sun Life had a strong start to the year with a good underlying earnings growth, an underlying ROE of 17.3% and a strong capital position. Underlying net income of $895 million and underlying earnings per share of $1.52 were up 24% from the prior year, reflecting the strength of our business fundamentals and the benefits of our diversified mix.

Sun Life provides 3 main types of services to our clients, wealth and asset management, group health and protection, and individual protection. Wealth and asset management businesses comprise approximately 40% to 45% of our earnings. These businesses generate fee-based earnings and spread income on investment products. Drivers of underlying results include net client flows, impact of markets and asset values, spreads over crediting rates on guaranteed products and operating margin. Wealth and asset management results were resilient this quarter.

While asset management earnings were impacted by global equity market declines over the past year, this was mostly offset by higher wealth management earnings. Higher wealth management investment income was driven by volume growth and increase in asset yields. Group health and protection businesses comprise approximately 30% of our earnings and include Sun Life's leading positions in Canada and U.S. stop-loss, Employee Benefits and Dental. These businesses generate earnings from shorter-term insurance coverage and fee-based services. The key drivers include premium growth driven by active members and protection coverage provided, actual experience relative to expectations and service-related fees. In Q1, group underlying earnings benefited from premium growth, favourable experience and higher fee income, including the contribution of DentaQuest.

And third, individual protection represents 25% to 30% of our earnings and comprises our longer-term protection businesses. Profitability reflects new sales, which drives premium growth, retention of in-force business, earnings from investing premiums and insurance experience. Individual protection underlying earnings were up year-over-year, driven by premium growth reflecting good sales momentum as well as improved mortality experience in Asia.

We generated new business CSM of $257 million and higher sales in Canada and Asia as well as favourable sales mix in Hong Kong, the Philippines and high-net-worth. Earnings on surplus were higher across our businesses, reflecting higher realized investment gains and growth in net interest income from higher yields on invested assets.

Reported net income for the quarter was $806 million, up 21% from the prior year. The results for this quarter include a gain on the sale of our Canadian sponsored markets business, partially offset by market-related impacts, the acquisition-related costs for DentaQuest and AAM and amortization of acquired intangibles. Market impacts in the quarter were mostly driven by flat total real estate returns, which is lower than our longer-term experience of approximately 2% per quarter.

Our balance sheet and capital position remained very strong, a key strength in this environment. SLF LICAT of 148% was up 18 points from the prior quarter, including 12 points from the transition to IFRS 17 and 6 points of organic capital generation in the first quarter, primarily from capital optimization. Our strong LICAT and low financial leverage ratio of 23.2% provides support for continued investment in growing our businesses and future capital deployment.

Now let's turn to our business group performance starting on Slide 9 with MFS. MFS underlying net income of USD 188 million was down 15% from the prior year, driven by lower average net assets, largely reflecting declines in global equity markets and net outflows. Reported net income of USD 200 million was down 12%. MFS pretax net operating margin of 37% was down 2 points from the prior year, reflecting lower average net asset levels. AUM of $570 billion was up 4% from Q4, our second consecutive quarter of sequential growth.
Retail net outflows of USD 1.8 billion and institutional net outflows of USD 2.4 billion, both improved from the prior quarter. MFS continues to generate -- to experience lower U.S. retail redemptions compared to the industry. And another positive in the quarter was approximately $1 billion of net fixed income inflows.

Turning to Slide 10. SLC Management generated fee-related earnings of $68 million, up 26% year-over-year. This increase reflects strong net flows and deployment of capital into fee-earning AUM over the past year. Fee-related earnings is an important leading metric for asset managers in the alternatives space. Underlying net income of $28 million was down from the prior year as fee-related earnings growth was more than offset by lower seed investment income and higher compensation expenses.

Reported net loss at SLC Management was $17 million, primarily driven by acquisition-related costs.

Capital raising of $2.3 billion was a good result for the quarter given challenging market conditions and lower allocations to alternatives as relative weightings have increased due to outperformance versus other asset classes, commonly referred to as the denominator effect. Total AUM of $218 billion was up 18% year-over-year. This includes $21 billion that is not yet earning fees. Once invested, these assets are expected to generate annualized fee revenue of more than $180 million.

Turning to Slide 11. Canada’s underlying net income of $316 million and reported net income of $329 million were both up sharply from the prior year. Wealth and asset management underlying earnings were up $34 million, supported by wider investment spreads and volume growth, which more than offset lower fee-based earnings reflecting equity market declines over the past year. Group health and protection underlying earnings increased $36 million year-over-year on improved disability experience from higher margins and shorter claim durations. Overall, the group business maintained strong momentum, delivering both premium and fee growth.

Individual protection was up $40 million, driven by premium growth as well as higher contribution from investment earnings. Individual protection sales were up year-over-year, reflecting strong demand for par products. Earnings on surplus in Canada was up from the prior year and drove increases across all business types, reflecting higher investment income and realized investment gains.

Turning to Slide 12. U.S. underlying net income was USD 176 million, up USD 93 million from last year. Reported net income of USD 125 million was up USD 81 million year-over-year. Group health and protection underlying earnings were up USD 103 million, driven by good premium growth across all businesses, contribution from the DentaQuest acquisition and favourable experience. First quarter results were driven by strong underwriting performance in our stop-loss business and a significant moderation of pandemic-related mortality and disability experience in the group benefits business.

Sales in the U.S. were driven by strong momentum in Dental and higher-margin products in Employee Benefits. Individual protection in the U.S. continues to generate good earnings and investment returns. First quarter results, however, were impacted by higher claim amounts. We’re pleased with the DentaQuest results this quarter. We are winning new business, are on track with our integration milestones and are confident that we will achieve our synergy targets.

Slide 13 outlines Asia’s results for the quarter. Underlying net income of $141 million was up 4% year-over-year on a constant currency basis. Reported net income of $134 million was up 14%, including favourable market-related impacts. Wealth and Asset Management underlying earnings were down 29%, reflecting lower fee-based earnings from equity market declines. Individual protection earnings, which comprise 85% to 90% of Asia’s earnings, were up 7% in constant currency compared to the prior year. This was driven by higher premiums from good sales momentum and improved mortality experience in high net worth. Individual protection sales were up 25%, primarily driven by higher activity in Hong Kong with the lifting of border restrictions and continued momentum in the high-net-worth business.

Overall, we're off to a good start for 2023 amidst a challenging operating environment. This quarter continued to demonstrate the strength of Sun Life's business model, including: strong fundamentals and leadership positions in diverse global businesses, good sales momentum reflecting our focus on client needs as well as diligent pricing and risk management, excellent balance sheet and capital positions and strong execution against our key business priorities to drive future growth.
With that, I'll turn the call back to Yaniv for our Q&A portion.

QUESTIONS AND ANSWERS

Yaniv Bitton Sun Life - VP, Head of IR & Capital Markets
Thank you, Manjit. To help ensure that all our participants have an opportunity to ask questions this morning, please limit yourselves to 1 or 2 questions and then to requeue with any additional questions. I will now ask the operator to poll the participants.

Operator
(Operator Instructions) And our first question comes from Meny Grauman of Scotiabank.

Meny Grauman Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst
You referenced in Q2, pro forma cash at the Holdco level of $2 billion. And I'm just wondering if you look out beyond, does that number move up materially? Is there more cash at the OpCo to move up to the Holdco?

Manjit Singh Sun Life - Executive VP & CFO
Meny, it's Manjit. Yes, as you mentioned, we're expecting to have a nice increase from Q1 where our Holdco cash was $1.1 billion, up to $2 billion at the end of the second quarter. And given our strong LICAT capital position, both at the Holdco and the OpCo, we expect that Holdco cash to continue to increase in the second half of the year.

Meny Grauman Scotiabank Global Banking and Markets, Research Division - MD of Financial Services Equity Research & Analyst
And then I guess the follow-up question is just in terms of capital deployment priorities, you have been busy over the last little while. I'm just wondering, with that cash amount, what the priorities are? Has it changed since you talked to us about it last time? So just wondering how you see that cash being deployed over the next number of quarters.

Kevin Strain Sun Life - President, CEO & Director
Meny, it's Kevin. The priority for our capital deployment is unchanged with the change to IFRS 17. We do have a strong position. We continue to have our dividend and organic growth as being the #1 priority. We do have -- we are active in the M&A, and you've seen that in the last few years. We always look for chances to build capabilities or to build scale as long as it meets our financial targets. And then we do consider buybacks. Based on what's in our M&A pipeline and what we see from a growth perspective, a use for organic capital and those types of things. So we have all 4 tools in front of us, and we're prioritizing these in the same way we have in the past.

Operator
Our next question comes from Gabriel Dechaine with National Bank.

Gabriel Dechaine National Bank Financial, Inc., Research Division - Analyst
A couple of quick questions here. One, Manjit, you made reference to capital optimization, I think that added 4 points to LICAT. Can you delve into that a bit more? And then question for, I guess, BentallGreenOak. All the stuff we're seeing in the commercial real estate market, rightfully so. Just wondering how that affects their fundraising capabilities or fee stream today? And if there's any general comments about the marketplace that you could share, that would be great, too.

Manjit Singh Sun Life - Executive VP & CFO
I'll take the first question. I think Randy will take the second one. So out of the 6 points that I referenced of internal capital generation in the quarter, about 4 of those -- 4 of that was from capital optimization. And those would generally include things where we're obviously reducing and managing the risk profile of the company. So it would be things like ALM actions where we're tightening up sort of the some of the residual risk and other reinsurance activities.

Randy, do you want to take the second one?
Steve Peacher  
Sun Life - President of SLC Management

Yes. Gabriel, it's Steve Peacher. Let me address your question on BGO. Yes, there's no question that there's pressure on the real estate market. And as everyone knows, there's concern about office cap rates are up with interest rates, but also risk premiums, mortgage lending rates are up. Having said all that, in the quarter, BGO was net positive in terms of fundraising, they expect to be for the year. They've certainly seen that there's more pressure on fundraising because of the concerns about real estate.

But remember, a lot of their products -- 2 things I'd point out. One is a lot of their products are closed-end private equity style products. While they do have some open -- a couple of open-end institutional funds, a lot of the products are multi-year products where the money is locked up for that period of time. So that's very important. And we continue to see fees growing at BGO, management fees, and we would expect to continue that.

The other thing that they've done a great job with is launching targeted subsector products, like they have a great cold storage product focused on that subsector of industrial. Their biggest weight across their funds actually is industrial, which continues to perform very strongly. So they're reacting to this pressure and have reacted leading into this by being focused on the subsectors of real estate, which are doing well. It doesn't mean they're completely immune from the pressure on an area like office, but we think they still continue to have momentum.

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

So inflow is slowing down, not seeing any pressure on withdrawals or anything of that nature at this point?

Steve Peacher  
Sun Life - President of SLC Management

No. We've seen -- what we have seen, they have an open-end fund in the U.S. that's in the Odyssey Index. And they have seen more redemption requests out of that fund as has every fund in that Odyssey universe, but they continue to raise -- they continue to raise money in their closed-end funds. They have an open-end fund in Canada where actually they're getting money into the fund. So you have to look across the broad platform. So they expect to raise a meaningful amount of money this year, but there's no question that the fundraising environment is more difficult within real estate.

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

I guess maybe this question is for Dan. Just on the U.S. group side, 2 parts. The decline in Dental underlying earnings. I don't know if there's like sequentially, I don't know if there's some seasonality in there. Maybe you can weave in what the contribution from DentaQuest was? And was there big swings quarter-over-quarter? And then -- the second part is just the U.S. Medical stop-loss sales were down. I know this is not a big sales quarter. And -- but you did call out last quarter increased competition in that space. And I think the stop-loss business margins are quite attractive. Just seeing if there's an update there.

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

Doug, it's Dan. Yes, let me take both of those questions. First on the Dental, there is some significant seasonality in Dental loss ratios. Typically, the first quarter is 1 of the 2 quarters with the highest loss ratios. And I think you saw that in our peers as well. Fundamentally, a lot of clients, particularly government programs, enroll January 1. People have a new benefit, they tend to go and use that. So that's certainly one of the contributing factors there.

We did have a little bit of adverse experience in the Medicare business this quarter. That's a small part of the business. We're taking action to address that. And then we had very good sales results in the quarter. Now those sales tend to be big and they -- the clients that were won will be implemented in the future, but some of the sales compensation is paid now. So those are the drivers there.

But overall, we're very happy with the performance of DentaQuest, which is the vast majority of this and the Dental business. There's great momentum, great sales momentum. We're on or ahead of our targets for synergies. The integration is going well. So we still feel very, very good about the trajectory of that business.
On stop-loss sales, you're correct. They were down a bit in the first quarter. The first quarter is the smallest quarter of the year for stop-loss sales. But the pricing in the market has grown very competitive. Trends in the market, the medical cost trend has tended to be performing very well. So that leads competitors sometimes to price aggressively to win new business. It's worth noting our sales are still roughly double the next biggest comparable provider of stop-loss.

And again, it's a small quarter. But we are taking some action, both selectively to increase competitiveness. And then also with new initiatives, we have a new artificial intelligence approach that's enabling us to target cases that previously we might not have quoted on. We recently sold our first case using that AI tactic. So we have a lot of things going on to continue to enhance our competitiveness.

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

Perfect. And then just second, on commercial real estate that's on your own books, and I know you talked about returns being relatively flat. Some would suggest perhaps there should be decent marks on the books, whether it's the mortgage book or the investment properties. Just wondering, can you talk a bit about marks that you have taken on this book and what you foresee if you can talk a little bit about the outlook and what you could foresee coming down the pipe as it relates to marks or allowances on the book.

Randy Brown Sun Life - CIO

Sure. Thank you for that, Doug. It's Randy Brown. So yes, real estate seems to be the topic du jour on every one's radar. And our portfolio, as you rightfully point out, was essentially flat on the quarter. Which was something in line with our expectation at this point. In terms of our portfolio, as you think about it, we've talked in the past, we embarked on a multi-year repositioning strategy, anticipating what we're seeing now.

So let me give you a couple of examples. From 2017 until now, in Canada, we reduced our office weighting from 38% to 24%, retail from 25% to 11% and increased industrial from 18% to 37%. During that time, we sold 39 office properties, while we bought 7 and developed 2 new in Canada. In the U.S., the repositioning was similar. Office dropped from 55% to 28%, retail 20% to 14% and industrial increased from 18% to 58%. And here, we sold over 30 office buildings, 85 properties in all.

So this was the most active CRE transaction period in the history of Sun Life, and that's led for us to earn returns above both our long-term estimates and above comparable market benchmarks. So our real estate portfolio has been repositioned. It's performing well. And in terms of outlook, we do expect further weakness, particularly in office. We've written it down approximately 20%. It's very building-specific. So it's hard to generalize for, let's call it, approximately 20% in the last several years. So we think our -- we've reflected some of the market changes. In terms of -- but do see weakness continuing to show in the next few quarters.

Operator

Our next question comes from Thomas MacKinnon with BMO Capital.

Tom MacKinnon BMO Capital Markets Equity Research - MD & Analyst

Just a couple of questions here. One, if I look at this line, Expenses-other, it's up in the U.S., but that's overall because of DentaQuest but in the Corporate segment, it seems to jump all over the place, and it's up 46% year-over-year. It seems to be heavily weighted in the first quarter. I wonder if there's anything unusual in that number on how we might be thinking about that number? And then I have a follow-up.

Manjit Singh Sun Life - Executive VP & CFO

Doug -- sorry, Tom. So I think in terms of your question, I think in the Corporate segment, I think the key drivers there for the quarter were really higher compensation expenses. As you know, those kind of move around with our share price and our performance. We also had higher IFRS 17 costs as we complete a project. And then we also had some higher debt financing costs. So I think if you kind of look at this quarter's number that you can probably use as a relatively good run rate going forward.
Okay. That's great. And then maybe I'll ask the question about capital a little bit differently here. I mean you still be -- still 2 points of organic capital you're generating that in my calculation seems to be about at least $300 million, maybe even $400 million. You've got more money going up to the Holdco here and in terms of cash. And your year through DentaQuest seems to be going well. I guess, Kevin, when you -- it's a high-class problem one would have, but when you tell investors, who'll invest in your business, what is it that -- where do you think you need to invest in your business? And how do you tell shareholders that those investments in the businesses are better return for the shareholders than just giving the money straight back to them.

Kevin Strain  
Sun Life - President, CEO & Director

Yes. So great question, Tom. Thanks. And when I stop and think about it, I want to emphasize that we are in a strong capital position and that reflects our approach to risk management, the strength of our balance sheet, some of the stuff that Randy talked about and how we change the mix and continue to leverage the balance sheet and then the mix of our businesses. And so the strong capital position doesn't happen by accident. It comes by direct strategy and working on it.

If I step back and look at buybacks versus the growth in the business, we have a target of medium-term objective, over 18% ROE. We look for strong growth in business of 8% to 10%, and we look to provide a dividend [payout] (corrected by company after the call) in our medium-term objective of 40% to 50%. So we -- when we think about M&A, it's all about building capabilities or building scale in line with those 3 medium-term objectives.

And so if we can't do M&A or even organic growth that meets those medium-term objectives, then we will give it back to shareholders. But when we do M&A, we have strong conviction that we can meet those objectives. And we also have strong conviction that we can be successful in the integration. And so DentaQuest is a great example. Dan talked about the momentum on our integration there and the integration approach, and we think that's going to deliver on our business case.

And that's the second largest M&A we've ever done in the history of the company and the first -- the largest one we've ever done outside of Canada. So that just gives you an example of how we're thinking about it. So it's -- our commitment is to deliver on those 3 medium-term objectives and what we do in the M&A should build towards that.

Tom MacKinnon  
BMO Capital Markets Equity Research - MD & Analyst

And just as a follow-up, the Asia ROE tends to be a lower ROE than the company's overall ROE. I mean, is it worth it to put -- why do you want to keep putting money into something that's of a lower ROE? Or what can you do to improve that. Is that the area that probably needs the most money put to work in order to improve performance?

Kevin Strain  
Sun Life - President, CEO & Director

So in Asia, we've been building scale, and you've heard us commit to a 15% growth in the earnings, and that's growth in earnings faster than the growth in capital. So you should see the ROE there improving over time. We're also looking for cash back from Asia, and we stress that to Ingrid and the team there that when they don't need capital, we want it back in Corporate. So they have to meet the same objectives that the rest of the company does.

Manjit Singh  
Sun Life - Executive VP & CFO

And the other thing I'd add on there, Tom, is that obviously, as you mentioned and Kevin mentioned, we've invested a lot. So there's a lot of goodwill that's kind of in the denominator. If you look at it on a tangible basis, our ROE is kind of approaching mid-teens.

Kevin Strain  
Sun Life - President, CEO & Director

Do we have another question, operator?
Paul Holden  
*CIBC Capital Markets, Research Division - Executive Director of Institutional Equity Research*

So maybe to close the loop on the topic of the day, commercial real estate. Maybe you can talk about the commercial mortgage book on your balance sheet. I don't know what kind of drill down you can give us, but it would be helpful to get a sense of, I guess, exposure to office there, and I guess, office, specifically in U.S. and any kind of metrics you can give us on credit allowances, how you’re looking at watchlists and overall ability of the borrowers to cover required mortgage payments?

Randy Brown  
*Sun Life - CIO*

Sure. Paul, Randy Brown. Thank you for the question. So the mortgage book underwent a very similar exercise to what we did on the real estate equity portfolio, very much of an up-in-quality strategy that’s been employed over the last 5 years. So again, let me give you some examples to demonstrate the case. So the entire book has gone up from a BBB to A rating over that period, which was a pretty massive undertaking. We have an average loan-to-value of 54%. Debt service coverage about 1.7 and increased the average loan size by about 50%.

So I would call this another big up-in-quality trade in the portfolio to position for the -- what we expected to be a weakness that we're seeing now. In terms of office, the numbers are similar to what you saw in -- on the equity portfolio. So we have decreased office. And again, the LTV on the office portfolio as a whole is in the mid-50s, about 55% as well. So we think that we’ve got a lot of protection built in to the mortgage portfolio. In fact, we did see positive ratings migration this quarter. So demonstrating the strength of the book. We have no mortgages in arrears and so it’s performing quite well.

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

Okay. And sorry, that percentage in office then is around 20, 25. Is that right?

Randy Brown  
*Sun Life - CIO*

Yes.

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

Yes. Okay. Right. Okay. Second question for me, noticed a significant jump in insurance sales in India this quarter. Maybe you can just talk about what the driver of the big jump in sales there was? And if that's sustainable and kind of remind us how that flows through the JV and into earnings for Sun Life?

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

Thank you. It's Ingrid Johnson here. What we saw in India was actually strong sales ahead of some tax regulatory changes to product attributes that would cause some of the earnings to be taxable downstream. So there was a [fire sale] of strong sales. Having said that, we were top 3 overall in our sales and given the momentum in the business, maybe not at that high level, but we expect that to continue. In terms of how this flows through, it would come through in the JV line.

Operator

Our next question comes from Mario Mendonca with TD Securities.

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

This is maybe best suited for Dan. Dan, I'm looking at the segment ROE, the U.S. segment ROE. And I appreciate this disclosure. It's helpful to see. What I observed was the significant increase in ROE started around Q3 '22. My inclination was that it was DentaQuest, but it may be more than that. Could you talk about how the fundamentals in the U.S. business, perhaps it's employee, perhaps it's stop loss, maybe it's DentaQuest that are contributing to that sharp improvement in the ROE from, say, Q2 to Q3.

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

Yes. Well, I think overall, the ROE is getting stronger and stronger because the margins in the business have been getting bigger. So a couple of factors there. One, as I'm sure you know, especially back in the first quarter of last year, we had greatly depressed earnings due to very high mortality in the group life business related to COVID. So the margins started to rise, obviously, as that faded off from the experience.
Secondly, as you know, the stop-loss business has continued to perform very well and the margins have actually continued to increase in that business as the loss ratio has dropped. So I think as far as the fundamental performance of the business, we have seen the margins rising and therefore, the ROE improving. I might ask Manjit to comment on this, but I also think there are some impacts from how DentaQuest blends into the results.

Manjit Singh  
Sun Life - Executive VP & CFO

Yes. I think Mario, if you look at the current level that we have, the 15% ROE, I think we feel very good about that, that level of return, again, that incorporates the investments that we've made in different businesses, like DentaQuest. And I think we see that continuing to go in that direction.

Mario Mendonca  
TD Securities Equity Research - MD & Research Analyst

Okay. Perhaps a different type of question, maybe a little more detail in its orientation. On the contractual service margin, and this is not unique to Sun Life. And I'm just trying to piece together why the increase from new business in the roll forwards are different from the actual contribution to earnings from the amortization. I just expected those 2 to be essentially the same number, but they're different. Could you help me think that through?

Kevin Morrissey  
Sun Life - Chief Actuary & Senior VP

Thanks, Mario. This is Kevin Morrissey. I'll talk about that. I think that when you're looking at the different components of new business, one of the things you have to consider is par and non-par splits on the CSM contribution. And you also have to step back and look at all the different components going into the CSM that you have different impacts in terms of how they interact and how they impact the amortization levels. So I won't go into all the details. There's a number of technicalities we may want to cover more detail next week, but that's probably how I would respond for today.

Mario Mendonca  
TD Securities Equity Research - MD & Research Analyst

And so just to close the loop on that, the amortization of the contractual service margin over time hasn't really kept pace with the growth in the contractual service margin. Another one of the insurers talked about how higher interest rates are having a depressing effect on the proportion of the contractual service margin that amortizes into earnings. Is that a similar effect for Sun Life?

Kevin Morrissey  
Sun Life - Chief Actuary & Senior VP

Yes, Mario, it's Kevin again. Yes, you're right. There is a key interaction especially on the variable fee approach products that have embedded guarantees, and there's an interaction between the market movements, between the cost of guarantee liability and the CSM liability, and it has an effect of dampening changes in the CSM amortization. So we think that's actually an attractive quality because it does stabilize our CSM amortization into earnings over time.

Operator

Our next question comes from Darko Mihelic with RBC Capital Markets.

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

I just -- my first question is just I wanted to revisit, Manjit, your answer to Tom's question on the expenses being in run rate. Like I thought I'd heard you say there were 3 things impacting it. And then in my mind, I thought, okay, well, it should go lower as a result from a quarterly run rate, maybe the interest cost sort of remains. But why is it that it's a good run rate? Look, is higher comp expected to continue for the rest of the year? IFRS spending, I guess, why would that -- unless you capitalize on expenses? Maybe you can just give me a hand and then just to touch it off, I mean, the whole other Corporate sort of segment has a lot of moving parts. Maybe you can just wrap it all up by saying, look, this is a good overall run rate for that business in the model?

Manjit Singh  
Sun Life - Executive VP & CFO

Yes. I think maybe I'll start with your last point first, Darko. So I think in terms of Corporate, you're right. I think our run rate kind of at the levels that we're seeing now around $100 million is probably what you should expect to see going forward. As you mentioned at the end, like there's always a bit of puts and takes in the Corporate segment just in the nature of what we include in there. So this quarter, there was those 2 items you mentioned. Other quarters, there could be some other things. Certainly, the debt financing costs are more
permanent. And the compensation costs are really a reflection in most cases relative to our share price performance. So that could move around.

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

Okay. Okay. That's helpful. And then just, again, another modeling question, I've been rebuilding models here, and I'm just trying to understand a few things. And I want to just go back to the expected investment result. In many ways, when I look at the quarter, it seems to have been a fairly big contributor to the year-over-year improved results and maybe it's not a great comparator, but I look at the investment—the expected core net investment result is up 79% year-over-year. The invested assets are up 33 basis points year-over-year. That number, also the core net investment result is up significantly quarter-over-quarter.

So I'm just trying to get a sense of how you would characterize it. Is the number ballpark now, the number we should expect for the next few quarters? Just want a little bit more clarity around how I should be thinking about modeling that. I've got some ideas, but the result I saw today kind of smashed my ideas.

Manjit Singh Sun Life - Executive VP & CFO

All right. We'll try to help you there, Darko. It's Manjit again. So I think exactly right to your last comment, I would really focus on this quarter as a baseline, Darko, because obviously, last year, there was a lot of movements in terms of how we transition to IFRS 17. So if you look at if you look at the 2 biggest components of the investment income, there's sort of the expected investment income, and there is the earnings on surplus. So maybe I'll talk to both of those in turn to answer your question.

So the expected investment income really includes sort of the 2 portions, which is the income that we earn on our assets backing liabilities, and that's really the spread over the discount rate on the liabilities. So that's one.

The second one for the assets backing investment contracts, it's really the spread over the crediting rate. So if you look at how that number will move, obviously, those are the -- that's what's going to impact it. So how does the overall asset yields move and of course, how does the crediting rate move on our investment contracts. And you combine that with our book is going to likely grow, so that's going to contribute to earnings overall. So that's kind of on the expected investment income side. And when you put that all together, we expect that to be relatively stable.

On the earnings on surplus and we break it out in the -- in our slides, Darko. I mean, the core there is really what you should be focused on. Because the other elements in terms of AFS gains can be lumpy from quarter-to-quarter because obviously, we're looking at opportunities in the markets on when to capitalize on that. And the other items are just sort of some accounting noise between derivative positions and cash positions that even out over time, but you could see a little bit of noise in that quarter-over-quarter. So on that one, I would rely on the core as your baseline going forward.

Operator

Our next question comes from Nigel D'Souza with Veritas Investment Research.

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

I just wanted to touch on the CSM balance. Correct me if I'm wrong here, I may have missed it, but it doesn't look like the CSM balances are disclosed at the business segment level. So just wondering what the rationale is for that and how we should think about changes in the CSM balances at the segment level and how that might impact CSM amortization to maybe different rates of amortization across your business. I was just trying to get a sense of the run rate here going forward?

Manjit Singh Sun Life - Executive VP & CFO

I think if you look at -- I'll start and I'll let Kevin comment as well. So I think if you look at the CSM amortization, there's a few things that impact it, but broadly speaking, I think we expect that to remain relatively stable. And the 2 business groups that really contribute to that are Asia and Canada.
Kevin Morrissey Sun Life - Chief Actuary & Senior VP

Yes, Nigel, it's Kevin Morrissey. Maybe just to add a bit to that. So there is some technical details to go in to. So I won't go into a lot here, maybe we can follow up next week. But the 2 things I will highlight for today is, CSM amortization will be impacted by mix of business because, as you know, it's amortized over the lifetime of the service of those contracts. And so that varies by the length of term of the business.

There are also some intricacies related to VFA products and especially market moves and interactions with cost of guarantees and the CSM and how that amortization happens over time. So there's kind of the measurement model impact and then there's duration impact to mix of business and both of those interact together. And what we have seen though is that number has been fairly stable. As you look at our results, the trend line is good. We've seen both the CSM amortization and risk adjustment release, both of those have been quite stable over time, and we're very pleased to see that trend.

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

Okay. That's helpful. And if I could follow up on investment activity gains. When I look at 2022 on a comparative basis, it's about 8% lower under IFRS 17, which is in line with your guidance. And I think I remember you mentioning higher investment activity gains under IFRS 4 contributing to the decline. So just trying to get a sense of how does that impact IFRS 17 results going forward? I think I understand that those -- that item now goes through net investment results. So just trying to get a sense of what the impact is on a go-forward basis and what you saw this quarter from investment activity gains.

Manjit Singh Sun Life - Executive VP & CFO

Nigel, it's Manjit. You're right. So I think the way it's going to kind of flow through in IFRS 17 is those -- the spread benefit that we were getting in IFRS 4, as you know, was being present valued, and that's what caused the lumpiness that you're mentioning in your investment trading activity gains under IFRS 4. Under IFRS 17, that spread will be recognized over time through investment income.

Kevin Morrissey Sun Life - Chief Actuary & Senior VP

And Nigel, it's Kevin, maybe just adding to that. You'll see that in the expected investment earnings line, and that's one of the reasons why we're expecting a favorable trend over time. And as you add to the investing activity, which we'll continue to do, to add value to the portfolio. You will see that build over time as it gets amortized in and that, again, comes in the expected investment earnings.

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

Okay. So it sounds like the more stability and kind of gradual drift higher there. So appreciate the color.

Operator

Our next question comes from Joo Ho Kim with Credit Suisse.

Joo Ho Kim Crédit Suisse AG, Research Division - Research Analyst

I just want to go back to CSM, another sort of modeling-type question. Just on the -- first, I guess, on the new CSM from Asia, really strong growth, and there were some mentions about how you have really good results from sales from India. But I'm just curious if you could give a bit more detail on sort of what drove that almost doubling of new CSM balance from Asia? And then I have a follow-up.

Ingrid Johnson Sun Life - President of Sun Life Asia

Thank you. It's Ingrid Johnson here. So just to note that in our CSM, we have some units that are not part of IFRS 17. So the joint ventures as well as Vietnam would not be in the CSM. So that's -- so the sales of the units in the CSM are 27% up. So what we're seeing is a doubling is a combination of both the strong sales as well as then the product actions to improve margin for the benefit of client outcomes. So over time, you should see the continued good run rate.

Joo Ho Kim Crédit Suisse AG, Research Division - Research Analyst

And at the top of the house, sort of at the company level, is there a reasonable range that you could guide us to for the new CSM?
Manjit Singh Sun Life - Executive VP & CFO

I mean I think obviously, sales never move directly in a straight line, overall, Joo Ho. But I think what we have sort of said is that we expect the organic CSM to kind of be in the mid- to low double-digit growth range over time -- sorry, the new business CSM. So that will bump around. But that's kind of what you're looking at over time, that's kind of the growth you should expect.

Kevin Strain Sun Life - President, CEO & Director

I think Manjit's comment that -- it's Kevin, that it's dependent on sales is -- that's the closest linkage. And Ingrid mentioned that, that the combination of sales and mix and pricing action. So our goal would be to, as Manjit said, is to grow that over time.

Operator

Our next question comes from Lemar Persaud with Cormark Securities.

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

I just want to come back to the line of questioning on expenses, but at the consolidated level. So that $470 million in other expenses, that's been climbing sequentially for the past, I think, 3 quarters. But thinking about the growth rate forward -- going forward, is it better to think about this on a year-over-year basis or sequentially when modeling this out? And then more broadly speaking, if we think about the costs at the top of the house, the costs with IFRS 17 are coming off here and lower inflation, should this drive the growth rate lower moving forward? Or are there other project-related spends that could keep this growth rate elevated?

Manjit Singh Sun Life - Executive VP & CFO

Lemar, it's Manjit. So yes, I think there are a few elements that go into that number. So there is obviously -- we're -- we've had inflation impacts coming through that number. You've heard about significant volume growth. So that's obviously included in that number as well. And there's also some currency impacts that impact that number. So some of those will move around depending on what's happening.

But I think if you want to think about it on a core basis, I would sort of say, overall in this environment, in top line, you're probably going to see 7% sort of growth in our expense rate, including inflation, which is running around 3%, 3.5%. And then our core business growth is growing at a similar rate. And that reflects also the investments -- some of the investments we're making into the business.

Operator

Thank you. We have no further questions at this time. I will turn things to Mr. Bitton for closing remarks.

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

Thank you, operator. This concludes today's call. A replay of the call will be available on the Investor Relations section of our website. Thank you, and have a good day.

Operator

This concludes the program. You may now disconnect.
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