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CORPORATE PARTICIPANTS

Natalie Brady *Sun Life Financial Inc - Senior Vice President of Capital Management and Investor Relations*

Kevin Strain *Sun Life Financial Inc - President, Chief Executive Officer*

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

Manjit Singh *Sun Life Financial Inc - President, Sun Life Asia*

Dan Fishbein *Sun Life Financial Inc - President, Sun Life US*

Kevin Morrissey *Sun Life Financial Inc - Senior Vice President and Chief Actuary*

Steve Peacher *Sun Life Financial Inc - Executive Chair, SLC Management*

Ted Maloney *Sun Life Financial Inc - President & Executive Chairman, MFS*

CONFERENCE CALL PARTICIPANTS

Meny Grauman *Scotiabank - Analyst*

Gabriel Dechaine *National Bank Financial - Analyst*

Thomas Gallagher *Evercore ISI - Analyst*

Doug Young *Desjardins Securities - Analyst*

Tom MacKinnon *BMO Capital Markets - Analyst*

Paul Holden *CIBC World Markets - Analyst*

Lemar Persaud *Cormark Securities Inc - Analyst*

Alex Scott *Barclays - Analyst*

PRESENTATION

Operator

Good morning, everyone and welcome to Sun Life Financial Q1 2025 conference call. My name is Gaylene, and I will be your conference operator today. (Operator Instructions)

The host of the call is Natalie Brady, Senior Vice President, Capital Management and Investor Relations. Please go ahead, Ms. Brady.

Natalie Brady - *Sun Life Financial Inc - Senior Vice President of Capital Management and Investor Relations*

Thank you and good morning, everyone. Welcome to Sun Life's earnings call for the first quarter of 2025. 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, Tim Deacon, Executive Vice President and Chief Financial Officer, will present the financial results for the quarter. After the prepared remarks, we will move to the question-and-answer portion of the call. Other members of management are also available to answer your questions this morning

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

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

Well, thanks, Natalie, and welcome to the call to you and to -- in your new role and to everybody who's on the call this beautiful Friday morning. Turn to slide 4, our results this quarter highlight the strength of our balanced and diversified business mix, an important attribute in an increasingly complex operating environment.

We achieved top and bottom-line growth across all of our businesses. Our underlying EPS was $1.82 up 21% year over year. Underlying net income was a record $1.045 billion and reported net income was $928 million.

Underlying ROE was 17.7%. Asset management & wealth saw strong earnings growth, particularly in SLC Management and Asia, driven by higher fee income and seed investment income. Additionally, we saw strong asset flows across SLC, Asia and Canada.

Group - Health & Protection earnings and sales growth were led by Canada. Individual - protection earnings were higher year over year with sales growth across the board. In Asia, we're seeing good momentum with sales driven by continued distribution strength in Hong Kong and India.

Our leadership position in the Philippines and the launch of our partnership with CIMB Niaga also supported our sales growth. Our capital position remains strong, reflecting our financial discipline and capital-light businesses.

Our LICAT ratio at SLF remains strong at 149%, and cash at SLF Holdco level was $1.3 billion. Reflecting this capital strength, we bought back $520 million of common shares during the quarter.

This quarter, we are pleased to announce a 5% increase to our common share dividend and are renewing our normal course issuer bid to enable continued share buybacks, pending regulatory approval.

We are confident in the resilience of our business mix, our focus on executing our long-term business strategy, and our sustained commitment to deliver on our purpose.

Turning to slide 5, we highlight our progress against our strategic imperatives. We saw good performance across our asset management and wealth platforms. SLC Management raised $4.4 billion in the quarter, including strong demand in BGO's Asia Value-Add Real Estate Fund Series.

Fee-earning AUM surpassed $200 billion, driven by a large insurance mandate for fixed income and increased BGO Asia deployments. These results reflect the scaling of our SLC platform.

At MFS, we continue to experience solid fixed income flows, generating approximately US$1 billion in flows. MFS also won the 2025 U.S. Lipper Award for Fixed Income, recognizing consistently strong relative returns over a three-year period. Beyond that, MFS is seeing strong early momentum for their active ETFs, which first launched last December.

In Canada, our Group and Individual Wealth businesses also demonstrated attractive growth. We achieved strong sales in our Group Retirement Services business, supported by large case and rollover sales in defined contribution, and in our Individual Wealth business, SLGI, grew well.

Our Asia business delivered good results on higher protection sales growth and higher wealth management earnings. In India, individual protection sales were up 35%, demonstrating growth in our banca and direct channels.

Our India asset management joint venture grew AUM by over 20%, underpinned by higher fixed income and other fund sales. Growth in India has been a consistent and robust driver of growth over the past few years and highlights the good growth in the Indian economy and our strong capabilities there.

In Hong Kong, our agency and banca sales channels have contributed significantly to growth of Individual Protection sales. Our agency sales growth was driven by both increasing the size of our sales force and increasing productivity. Our bancassurance channel continued to perform well, with strong results from our partnership with Dah Sing.

While our broker channel remained a stable source of sales, we continue to diversify and accelerate our momentum in this attractive, fast-growing market.

In Health, we continue to show strength and resilience in our Canadian Health business. Higher large-case deals contributed to very strong sales in the group health and protection business. Earnings were strong, and we continued to be the scale leader in this market.

In the U.S., our management team continues to take action, and we saw a positive shift in the performance across businesses. We continue to experience growth in our U.S. Employee Benefits business, driven by disciplined pricing, our focus on claims and expense management, and our strong technology capabilities.

Results in stop-loss improved significantly from the prior quarter as our pre-2025 cohorts of business performed in line with expectations we provided at the end of 2024. As noted last quarter, we have added two points to our claims expectations for the January 1, 2025, cohort, reflecting the higher claims experience we saw at the end of 2024. Our strong capabilities in this business and leading scale continue to give us confidence.

Dental results continue to stabilize, reflecting a mix of improved pricing, beneficial claims experience, and expense discipline, as well as the benefit of a retroactive payment in the quarter.

We continue to make it easier for our Clients to do business with us by delivering streamlined digital experiences. Group Retirement Savings Clients in Canada can now set up money movements within minutes. We plan to build upon and scale this functionality, integrating it into other Client processes and experiences.

We also launched several Client portals, including a new Client mobile app in the Philippines. In the U.S., we introduced the Your Benefit Connect Portal, designed to support absence and short-term disability management. This new portal features a streamlined claims filing process, provides valuable insights to Clients to help them manage their benefits, and offers an employer dashboard to help them more effectively manage their business.

Underpinning our strong business performance are our people and culture. We were recognized as a Best Place to Work in Canada and Ireland for the third year in a row. Achieving this recognition is a reflection of our positive culture and our care for people, who are at the heart of Sun Life's success.

I'm also pleased to congratulate Helena Pagano, Sun Life's Chief People and Culture Officer, on being recognized as the winner of the 2025 Globe and Mail's Report on Business Best Executive Award. Helena's exceptional leadership and innovative approach continue to drive our organization forward, empowering our people to thrive and grow. We're proud of her well-deserved recognition.

Additionally, congratulations to Melissa Kennedy, Sun Life's Chief Legal and Public Policy Officer, for being named one of the top general counsels by Chambers and Partners. This award recognizes outstanding in-house lawyers who significantly impact their organizations and clients, as well as reflects Melissa's contribution to our company, the legal profession, and the industry at large.

These awards reinforce the invaluable experience and vision Sun Life's global leadership team brings to our organization. Guided by our purpose, our dedicated leadership, and their teams, blend global strengths with local expertise, driving our continued success.

All in all, Q1 was a strong start to 2025, despite the challenging political and economic conditions. We continue to watch both the geopolitical environment and the economy closely.

Sun Life has been in business for 160 years and operates in 28 markets around the world, giving us the tools to manage challenging conditions. Our business mix, prudent risk management capabilities, and strong capital position provide resiliency to our company.

With that, I'll turn the call over to Tim, who will walk us through the first quarter financial results in more detail.

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

Thank you, Kevin. Good morning, everyone. Turning to slide 7, we are pleased with our first quarter 2025 results, which reflect strong performance across each of our operating segments. We've reported record underlying net income of $1.045 billion, up 19% year over year, while underlying earnings per share of $1.82 was up 21% over the same period, reflecting strong performance over our Q1 2024 results.

Asset management & wealth underlying earnings were up 19% over the prior year on higher fee income and higher net seed investment income at SLC Management. Group - Health & Protection underlying earnings were up 18% year over year, driven by business growth, favourable insurance experience in Canada, and improved U.S. Dental results, partially offset by moderately unfavourable morbidity experience in U.S. medical stop-loss, in line with expectations.

Individual - Protection underlying net income was up 20% over the prior year, driven by business growth and higher joint venture contribution in Asia, and improved protection experience in Canada. Underlying return on equity was 17.7%, a strong improvement from the prior year and prior quarter.

Reported net income for the quarter was strong at $928 million. The variance between underlying and reported net income included acquisition and integration-related items at SLC Management and U.S. Dental, amortization of intangible assets in Sun Life U.S., and modestly unfavourable market-related impacts.

Market-related impacts reflected unfavourable equity markets and adverse real estate experience, partially offset by favourable interest rate impacts. Real estate returns were positive in the quarter but were below our long-term return assumptions.

Total CSM, which is a store of future profits, of $13.6 billion, increased 12% year over year, driven by strong organic CSM growth and currency impacts. New business CSM of $406 million was up 17% year over year, driven primarily by strong margins in Hong Kong.

Organic capital generation net of dividends remains solid at $308 million, within our target range of 30% to 40% of underlying net income. Our balance sheet and capital positions remain strong, with an SLF LICAT ratio of 149%, which was down three points from the prior quarter as organic capital generation was more than offset by share buybacks and the investment in our expanded bancassurance agreement with CIMB Niaga in Indonesia.

Holdco cash remains solid at $1.3 billion, and our leverage ratio remains low at 20.1%. Finally, book value per share increased by 9% over the prior year and by 0.5% quarter over quarter, demonstrating our ability to generate strong growth while returning value to our shareholders, with 6.4 million shares repurchased this quarter under our share buyback program.

With only 2 million shares remaining under the existing Normal Course Issuer Bid (NCIB), we announced today the intention to renew our NCIB program to purchase up to an additional 10 million shares, subject to regulatory approval.

Turning to our business group performance on slide 9. MFS's underlying net income of US$186 million was down 2% year over year, as higher average net assets and lower expenses were more than offset by lower net investment income from declining rates on lower cash and short-term investments and the impact of fewer fee-earning days in the quarter. Reported net income of US$190 million was up 6% year over year, driven by declines in the fair value of MFS's shares owned by management, primarily from the sequential decline in AUM.

Pre-tax net operating margin of 35.4% decreased by 1.8 percentage points over the prior year, driven by lower net investment income. Assets under management of $604 billion were down 4% over the prior year and was in line with the prior quarter. The sequential movement in AUM was driven by net outflows, partially offset by market appreciation.

Outflows of US$8.1 billion included retail outflows of $6.2 billion and institutional outflows of $1.9 billion. Retail outflows accelerated this quarter as investors continued to shift assets to risk-free instruments in light of the current equity market uncertainty. While institutional outflows improved from the prior quarter, we continue to see Client activity to rebalance and restructure select strategies.

Overall, long-term investment performance for MFS remains good, with 92% of fund assets ranked in the top half of their respective Morningstar categories for 10-year performance. Fixed income performance was strong, with 98% of fund assets ranked in the top half of Morningstar on a 10-year basis.

Turning to slide 10, SLC Management generated record underlying net income of $85 million, more than double over the prior year, driven by strong growth in fee-related earnings and higher net seed investment income from strong asset performance, particularly in real estate.

Fee-related earnings of $99 million were up 43% year over year, driven primarily by catch-up fees from strong capital raising at BGO. Catch-up fees are typically earned on the final closing of a fund.

Reported net income of $55 million was up 31% over the prior year, reflecting higher underlying net income, partially offset by a gain in the prior year on the early termination of a distribution agreement. SLC Management continued to generate strong capital raising, with $4.4 billion raised this quarter, with strength across all affiliates, particularly in BGO Asia and private credit. SLC fee-earning AUM of $201 billion was up 13% year over year, driven by deployments and market appreciation.

Turning to slide 11, Canada delivered solid results, with underlying net income of $376 million, up 21% year over year, driven by favourable insurance experience, strong business growth, and higher fee income. Reported net income of $351 million was up 21% year over year on underlying net income growth.

Asset management & wealth underlying earnings were up 3% year over year, driven by fee income growth on AUM. Canada reported record wealth AUM of $190 billion, which was up 10% year over year on market appreciation and net inflows.

At SLGI, gross flows increased 42% year over year, driven by strong mutual fund sales growth during the RRSP season. Group - Health & Protection underlying earnings were up 27% year over year, on business growth and favourable morbidity on shorter claims duration and favourable mortality, reflecting lower claims severity.

Group sales were up 21% year over year by higher large-case sales. Individual - Protection earnings were up 37% year over year, based on favourable insurance experience. Individual - Protection sales were up 7% year over year, driven by third-party and SLFD sales.

Turning to slide 12, Sun Life U.S. underlying net income was US$151 million, up 7% from the prior year. In Group - Health Protection, underlying earnings were higher by 4% year over year.

In stop-loss, results improved significantly over the prior quarter, as claims experience was in line with our estimates last quarter and included the expected 2% pricing shortfall for the January 1, 2025 cohort.

In Dental, we benefited from pricing actions on the Medicaid business, including a retroactive premium payment this quarter, the second in the past year and from ongoing expense efficiency actions.

U.S. Group - Health & Protection sales of US$107 million were down 13% year over year, driven by lower government Dental sales due to lower RFP activity and lower Employee Benefits sales, as we remain disciplined on pricing.

Individual - Protection underlying earnings were up year over year, primarily driven by higher net investment results. Reported net income of US$129 million increased year over year, driven by favourable market-related impacts and higher underlying net income.

Turning to slide 13. Asia posted record underlying net income of $197 million, up 11% year over year. Results benefited from business growth, higher contributions from joint ventures and fee income growth in wealth, partially offset by lower earnings on surplus and unfavourable mortality in the High Net Worth segment. Reported net income of $166 million was lower year over year, reflecting a prior year gain on the partial sale of our asset management joint venture business in India.

We continue to see strong sales momentum in Individual - Protection, up 17% year over year as we observed solid sales growth across virtually all markets. Asia's total CSM of $6.2 billion grew 29% year over year, driven by strong organic CSM growth and currency impacts. New business CSM of $273 million was up 19% from strong margins in Hong Kong.

In summary, we are pleased with the overall quality of our results this quarter, demonstrating the earnings power of our diversified businesses. We remain laser-focused on execution in delivering towards our medium-term financial objectives. And our strong capital levels make us both well positioned to navigate the uncertainties in the current macroeconomic environment and to capitalize on the potential opportunities that may lie ahead. With that, I will pass it back to Kevin for some closing remarks before we open it up for Q&A.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

Well, thanks, Tim. And as you note, the resiliency created by our business mix and our ability to execute were key to our strong results this quarter. We know that the most important thing we can do in these challenging and uncertain times is bring value to our Clients and focus on our purpose, helping Clients achieve lifetime financial security and live healthier lives. That is what we do. That drives us and shapes who we are.

At the same time, we have a deep understanding of the markets where we operate. We have strong relationships with government, businesses, and individuals. We do everything we can to be part of the fabric of those countries, bringing a global understanding and view while delivering local impact. And with that, I'll turn the call over to Natalie for the Q&A portion of the call.

Natalie Brady - *Sun Life Financial Inc - Senior Vice President of Capital Management and Investor Relations*

Thank you, Kevin. To help ensure that all participants have an opportunity to ask questions this morning, please limit yourselves to one or two questions and then requeue with any additional questions. I will now ask the operator to poll the participants.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Meny Grauman, Scotiabank.

Meny Grauman - *Scotiabank - Analyst*

If I look at your Asia performance on the sales side, it doesn't seem like tariffs or tariff uncertainty is having an impact yet. But I'm wondering, as you look forward, what's your expectation there?

Manjit Singh - *Sun Life Financial Inc - President, Sun Life Asia*

Good morning, Meny, it's Manjit. As you noted, we had a very good quarter this quarter with sales up 17% on a year over year basis. And that was broad based as well. As Tim mentioned, we are up in 6 of 8 markets. And also in terms of our channel mix, we were up across agency, banca and broker.

I mean obviously, as you know, we're dealing in a very fluid environment right now and so it's a little bit difficult to understand or see where the world is going to be going. I think what we focus on, as Kevin said, is on our Client and making sure that we're fulfilling the needs of our Clients. And we're also very pleased with our business fundamentals.

We have a strong brand. We have good distribution. We have a good Client proposition. So I think that will position us well to manage through this environment.

Meny Grauman - *Scotiabank - Analyst*

And then if I could just ask on the U.S., just in terms of -- we've seen quite a bit of volatility in earnings over the last few quarters. And definitely, this quarter, looks like the momentum is moving in the right direction. But from an earnings volatility perspective, is your expectation that the volatility will come down? Or should we still be prepared for some ongoing volatility in this unit as we look ahead?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Well, thanks, Meny. It's Dan. I would characterize it maybe not so much as volatility, but seasonality and cyclicality. The businesses we're in now, and they've obviously become quite a bit larger, and a bigger part of the whole have a unique seasonal and cyclical set of patterns to them, and they're different across the different businesses.

Obviously, there are some challenges that we've been facing in the Dental business, and we're working hard to address those. But those are not, by no means, completely behind us. The stop-loss business, as you know, had some increase in severity in the fourth quarter. We're pleased with the first quarter results and the way that has stabilized and even improved somewhat. But that issue, of course, is something that will happen from time to time in stop-loss. And then each of these businesses has its own seasonal pattern.

If you look at these businesses over a year-long period or a two- or three-year period, you're going to see them all very nicely performing. But from quarter-to-quarter, we're likely to still have some variance. That's not necessarily a bad thing. It's just the nature of these businesses.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

I'd like to add one thing, too, because that -- it happens, particularly in the health side where you can get things like flus and medical costs. And we can typically reprice that over one, two or three years. And so again, we don't see that as -- that's natural to the business.

And the way the business is structured, we can reprice for those higher medical costs or those impacts that have happened, and that's what Dan and his team are doing, and they do very well. And having scale is important to doing that. And we do have scale in both our health businesses in Canada, but also our health businesses in the U.S.

Meny Grauman - *Scotiabank - Analyst*

I guess just to follow up to that, Kevin is just in terms of - is there anything that you can continue to do that you're not doing that can minimize that seasonality or volatility.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

I think Dan and Jess are doing everything they can, but we can't control when there's a bad flu season or the medical costs in the U.S. But what we can control is how we treat our Clients, how we do our repricing, the discipline we bring to our business and how proactive we are in managing expenses and those types of things.

And I think we're doing everything we can on those, and I have confidence that we're doing all the right things. But coming back to it, having scale is really important to being able to see yourself through that -- those fluctuations and those changes.

Operator

Gabriel Dechaine, National Bank Financial.

Gabriel Dechaine - *National Bank Financial - Analyst*

Just a question about your group businesses, both sides of the border. And I'm just thinking about the expected profits or whatever it's called, and how you model that out. Typically, we think about claims, incidence rates, severity, all that stuff.

Just wondering what sort of employment environment do you have or assumptions you have underpinning your expected profits in that business over the next year or two, if that applies? Because we've obviously got some flat employment trends and maybe some sectors of the economy that are facing more significant scenarios. And if you can shed some light on that, it would be very helpful.

Kevin Morrissey - *Sun Life Financial Inc - Senior Vice President and Chief Actuary*

Hi, Gabriel, it's Kevin Morrissey. Thanks for that question. Generally, when you're looking at those group businesses, that's the earnings on short-term business. And what you're seeing in that line of the DOE is based on the pricing assumptions. And as you know, that business is repriced every one, two or three years.

And it's really -- it's a short-term horizon on that in terms of the expectations underpinning that. So in each one of the geographies, it would be kind of the outlook that we have in each of those geographies for that time horizon. And it's closely monitored and updated as we see the circumstances changing.

Gabriel Dechaine - *National Bank Financial - Analyst*

You got price times volume equals revenue or whatever, but there's an element of job growth in there, I got to assume? Or is that insignificant in your outlook?

Kevin Morrissey - *Sun Life Financial Inc - Senior Vice President and Chief Actuary*

We would include all of the economic factors as well as experience components as well. So what we're seeing in terms of trends on claims and costs as well as economic factors -all of that would be incorporated into those expectations in the pricing, and that's what would show up in that DOE line.

Gabriel Dechaine - *National Bank Financial - Analyst*

So would that one fluctuate real time sort of thing?

Kevin Morrissey - *Sun Life Financial Inc - Senior Vice President and Chief Actuary*

Usually, we reset those once a year. And so you're going to see that stable in the DOE for a year and then kind of a reset based on the latest pricing each year.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay. My quote unquote second question. The Asia business, I know there was some FX tailwinds, but I see a 14.6% ROE in the quarter, your medium-term target is 15%-plus, looks like you're ahead of schedule there, but I don't know if that's actually the case. Was there anything unusually positive this quarter? And you talk about some margin enhancement in Hong Kong. I just want to see how sustainable that figure is really?

Manjit Singh - *Sun Life Financial Inc - President, Sun Life Asia*

Yeah, we are very pleased with the results of our business this quarter. As I spoke about earlier, our sales were strong. We're also building good momentum across our businesses on both distribution and the Client proposition. We also launched this quarter our deal with CIMB Niaga.

So we feel very good about the momentum in our business and going forward. There was nothing that I would say was unusual in our results for the quarter.

Gabriel Dechaine - *National Bank Financial - Analyst*

So that number is kind of a good run rate?

Manjit Singh - *Sun Life Financial Inc - President, Sun Life Asia*

I think, obviously they'll be impacted by how the environment unfolds in front of us. But if the environment remains the way it does, I would say that's a good run rate.

Gabriel Dechaine - *National Bank Financial - Analyst*

Great, thank you, enjoy the weekend.

Operator

Thomas Gallagher, Evercore ISI.

Thomas Gallagher - *Evercore ISI - Analyst*

Good morning. A few questions for Dan on the U.S. When you said the U.S. stop-loss has stabilized and even improved somewhat, can you give a sense for how much of that is informed by actual claim emergence in the book because I know it takes a bit longer over the course of the year to see claims. But I think there's probably some leading indicators you have underneath the surface.

So is it a claims emergence or is it more of a broader macro assumptions you're looking at to make those observations?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Well, thanks. As you know from the conversations we had and even from the lunch and learn that many people went to, we look at this business in terms of different cohorts. So the cohort from a big part of the experience is the 1/1/24 cohort as well as a smaller, but still meaningful piece was the non-1/1/24 cohort.

That is largely based on claims experience emerging. And in the first quarter, those two cohorts combined actually were a little bit favourable to where we had set them at the end of the fourth quarter.

The other big part of the experience this quarter is the 1/1/25 cohort. And that's almost entirely a reserve pick. There's been very few claims at this point. And as we mentioned last quarter, since the higher severity in stop-loss emerged at the very end of the year last year, that cohort had already been priced. And even though we got a robust 14% rate increase on that business, we now feel that we really needed 16%.

So we were short about 2%. And that's a meaningful part of the experience this quarter as well as we continue to have that extra 2% in there.

Thomas Gallagher - *Evercore ISI - Analyst*

So Dan, on the ‘25 cohort, do you -- whether it's the 50% claims report or otherwise, do you have any real emergence? Or does that take a couple of more quarters to be able to determine how the development on claims are looking on the ‘25 cohort?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

In the first quarter, you see very little real data even on the 50% claim report. The coverage was effective for the plan year starting January 1. So in those first three months, you're not typically going to see much. We'll start to see a little more each quarter.

But of course, as we've discussed, you really see most of those claims in the fourth and fifth quarters of that cohort year. So we'll start to see some of the 50% reports in the second and third quarters, and we'll start to get a little better idea. But at this point, it's largely a reserve pick.

Thomas Gallagher - *Evercore ISI - Analyst*

Got you. And then my follow-up is, just on the comment about lower Employee Benefit sales that you were disciplined on pricing. Where are you seeing the most price competition? Is it true group voluntary? And also, how is your persistency holding up through some elevated competition?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Yeah. I think where we're seeing the most price competition is in the disability lines. For the past several years, there's been highly favourable disability experience and continuously improving across the industry. There's a number, probably, of system-wide factors for that, including more use of remote and hybrid work, which enables people to get back to work in ways they didn't used to be able to. So we're seeing the competition starting to put some of that favourable disability experience into their pricing.

So if you think of the business in three components: disability, life and voluntary, we're actually doing very well in the life and the voluntary, which is -- voluntary is an area we really want to grow. But we've been more cautious in disability because of that price competition.

Operator

Doug Young, Desjardins Securities.

Doug Young - *Desjardins Securities - Analyst*

Hi, good morning. Dan, maybe we can stay with you. Just looking at U.S. group sales on the dental specifically the Medicaid and Medicaid Advantage, weaker versus what we've seen in the last few years. And maybe you can kind of talk about a little bit what you're seeing there and how this informs your underlying earnings growth outlook for this business.

And maybe if you can weave in, obviously, there's a fluid situation with the administration in the U.S. and who knows what's happening. But any concerns that you have in terms of changes to those two businesses in particular? And then I got a follow-up.

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Yeah. Thanks. There's a whole set of questions and answers there that I want to provide. First of all, it's a very good observation that the conversations coming out of Washington are having a lot of secondary influence here. We don't see what's been proposed in Washington as having a lot of direct impact on dental benefits.

75% of the Medicaid coverage we have is kids and nobody is really talking about cutting Medicaid benefits to kids. And in the adult coverage, while there could be some impacts, we feel they're fairly modest.

But the bigger impact that it's having is that overall Medicaid funding is definitely under a lot of pressure. And we work with states that fund Medicaid, not just in Dental, but much more significantly in Health, and we work with a lot of health plans as a subcontractor that do the same. And they're feeling quite a bit of uncertainty and pressure on their revenues going forward.

So that is making some of the second round of renegotiations that we're engaged in this year for -- to get our pricing back to where it needs to be, go somewhat more slowly than perhaps we had hoped or expected. So that's certainly a factor.

I also should mention in the dental results, we did have a retroactive premium payment from one of our large Clients, which was great. In fact, it's the second retro that we've gotten in the last three quarters. So we do think this may be a regular part of the business, but not routine. And we don't expect another retro payment specifically in the second quarter. So that is a bit of a relative headwind to the results in the first quarter going into the second quarter.

And then in terms of the impact on sales, we have noticed, again, due to the uncertainty that some of the RFP timelines have slowed down. So in the first quarter, that tends to be a small quarter for sales, the way we record them. Also large institutional government sales are lumpy, a small number of very large things, but there were none in the first quarter.

Now despite all that, we have nine significant Medicaid contracts we're bidding on this year, representing almost 5 million potential lives. So there is a robust pipeline, but perhaps the timelines have slowed down just a bit.

Doug Young - *Desjardins Securities - Analyst*

And just a follow-up, Dan, like this doesn't impact your underlying earnings progression for this business because you've got -- obviously, you've laid out targets for this year and for 2029. And can you quantify the retro payment side?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Yeah. So the retro payment applied to the current fiscal year. In the case of that Client, that fiscal year started 9/1. So there's a part of that retro payment that applies to the first quarter and a part that applies to the 9/1 to 12/31 period, and that was in the single digits, still very helpful, but not particularly large.

In terms of our progression towards the target for this year, we're still very committed to that number, working very, very hard to get there. In the long term, the MTOs we laid out in November for the Dental business are still very much our plan and intention.

But as I mentioned, I think the -- because there was a retro in the first quarter that wouldn't recur in the second quarter, we wouldn't necessarily see the same result in the second quarter that we did this quarter.

Doug Young - *Desjardins Securities - Analyst*

That's fair enough. And then I guess, Kevin and Tim, you both said, you talked about the financial strength of the organization, the amount of capital you generate, the amount of capital you have, your debt capacity.

The increase in the NCIB now is 10 million. It was 15 million previously. It's a question that's coming up in a lot of conversations I'm having. So why not have another 15 million in NCIB. Is there a message that's being sent here? Or can you just maybe walk through your thought process?

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

Sure, Doug, it's Tim. So as you said, we have a very strong capital position. We have strong holdco cash, and we've been able to maintain that, despite paying out dividends and the share buybacks, et cetera. So that's in a really good position.

We have leading capital ratio at 149%. We just did 12 million. We have 2 million remaining and wanted to remain active. But we also wanted flexibility going forward.

So we did -- we were applying for 10 million. And that's really because as we look ahead over the next 12 months, we have some also some planned upcoming capital deployment.

So the remaining equity that we don't currently own within our SLC affiliates, that buy-up is occurring in the first half of next year, that's about $2.3 billion. You can see that in Note 4 of our financials. So it really reflects for us to have the flexibility to remain active in the program, but also to be able to meet our future commitments as well.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

And Doug, I would just add one thing. I think if we look at the current economic conditions and where things are at, there's significant risk going forward in a lot of parts of the economy. And so we are going to be carefully looking at that and how we deploy capital. And when we do buybacks, it's when we have cash flow and the ability to do it. But having that, this is not -- this is an unusual time. And I think being ready and prepared for that unusual time is important.

Doug Young - *Desjardins Securities - Analyst*

That makes sense. I appreciate the colour thanks.

Operator

Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yeah, thanks. A question with respect to SLC. Obviously catch-up in fees here certainly has helped revenue in the quarter. I think if several years ago, you gave a guide of $235 million, correct me if I'm wrong, for 2025. How are you thinking about that, just given, I guess, the bump up we saw in the first quarter. The stronger capital raises you have.

And how should we be looking at that number in 2026, progressing and then progressing in light of what I believe would be the buy-ups of the minorities here, which -- and correct me if I'm wrong, is it 25% of SLC that you would be buying in associated to that $2.3 billion that you're talking about?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

Tom, thanks for the question. It's Steve. We're on the $235 million, you're right. That's the target that we put out. We feel good about that number for the year.

This quarter was certainly elevated because of the catch-up fees that Tim mentioned, also, we had some seed income. So it was above a normalized level for us. This business is pretty stable because you've got base management fees.

And if you -- if you were to look at our core management fees, they were up about 8% year over year. And then you've got some things that are variable. Catch-up fees can fluctuate quarter-to-quarter. We almost always have some. This was a bigger quarter.

We've got some other things that fluctuate quarter-to-quarter. Seed income, which generally is positive, but we've had some quarters where that's been negative. Property management fees can be seasonal. We've got performance fees, which generally have been low, but those could -- we expect those will increase over time.

So there are some aspects to our quarterly results that can fluctuate around a pretty stable base. So we feel good about the $235 million number for this year. And we think as we look beyond that into 2026 and beyond, we expect to have really solid growth. I think we've got good momentum in the business. If you look at our AUM, year over year, we're up 12% to 13%, if you look at fee-earning AUM or AUM.

And I don't think -- we're only now really starting to harness -- this is a platform. Up until now, we've basically had a bunch of individual businesses that we let operate on their own and now -- only now we're really starting to think about this and operate as a platform. And I think that's going to help us accelerate our growth going forward.

There's always headwinds and tailwinds. You've got, as Kevin mentioned, this is an unusual time. So some of those -- there are puts and takes to that. One thing that we have seen is, we have a global investor base. And for investors outside the U.S., we have seen some emerging reluctance to allocate into the U.S. for different reasons.

So that's -- it's not catastrophic, but something we're seeing. But you always have things in your favour and you always said things that you're battling against so.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

Steve, I am just going to mention one thing. When you see these catch-up fees, the larger they are, the better they are. That means we raised more funds. We were more successful. Investors are really interested.

So you should see these catch-up fees as being a really positive endorsement of the alternatives business. And as Steve said, a natural part of how the alternatives business works. And so we're pretty pleased with the Asia fund that BGO had launched and just the success in getting money there and deploying money. So that catch-up fee is a recognition of that.

The other thing on this, we are -- as SLC grows, and we expect to see SLC grow. An important piece is helping with seed money and helping start new funds. And so that's when you're seeing some of those seed investment earnings come through like they did this quarter. And when those are positive, that's also a good thing. It means that we're getting strong performance in the start of those funds. So I think these are normal parts of the alternatives business. And you should see them both as being very positive.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And on the minority, is that 25%?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

Well, it's a good question, and the answer is a little bit more complicated because we have different percentage interests in different businesses. So we completed the buy-up of InfraRed. So now we own 100% of that. We own all of our fixed income business. We've got a majority interest in both Crescent and BGO, but high minority interest there that we'll be buying out.

And then the other factor is, as we think about the go-forward structure, we expect employees to own a portion of this business, as you would see with most alts businesses out there. And we think that's important to LPs, and we think it's important to alignment. And we're working through that now. So the specific percentage that we'll end up owning is there's some moving parts there, is what I'll say.

Tom MacKinnon - *BMO Capital Markets - Analyst*

What percentage would the employees own?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

Well, if you look at -- let me put it this way, if we spend a lot of time looking at the universe. And if you look at the universe of alts firms, it's not uncommon to see employees own 20% of the business. And that's -- if you look across the landscape. And I think if you talk to the big institutional investors out there, it's really important to them to see employees aligned through things like carried interest, but also ownership in the entity. So we're taking all that into account.

Tom MacKinnon - *BMO Capital Markets - Analyst*

But the $2.3 billion that you've noted in your financials is for Sun Life to buy the -- some remaining portion of it and not for the employees, is that correct?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

Yeah. Tom, that figure assumes that we buy up 100% of the remaining interest that we don't own.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. And is that still the plan? I mean you wouldn't book it in your notes if the employees were going to be buying it. Is that correct?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

Well, let me just say that all of that was in process to think about how we align the incentives going forward. So these are active discussions, and we want to make sure we get that right. But today, that liability reflects the assumption that we'll buy 100% of the business.

Operator

Paul Holden , CIBC.

Paul Holden - *CIBC World Markets - Analyst*

Thank you. Good morning. So going back to the U.S. business, when I look at that expected profit line on short-term business, it's up roughly 0.5 point year over year. So how do I think about that?

Obviously, I think you've kind of addressed the higher claims loss assumption on stop-loss? Are there any other factors that are kind of holding that back from being a higher growth rate? And will that evolve over the course of the year? Or is that kind of -- does that kind of set sort of an expectation for the remainder of the year?

Kevin Morrissey - *Sun Life Financial Inc - Senior Vice President and Chief Actuary*

Hi, Paul, it's Kevin Morrissey. Thanks for that question. I just want to give you maybe a bit of the details of how that line is determined. So that expected earnings on that type of business is really based on the profitability and the expectations.

So when you see the growth year over year, it's really going to be driven by the volume of business that we have in-force and the pricing expectations on that. So it's kind of the combination of those two.

And those are what are going to drive the changes year to year. So as the business comes on, that would naturally update each quarter. But on the pricing side of that, that's updated once a year.

Paul Holden - *CIBC World Markets - Analyst*

Okay. Second question is related to stop-loss premiums, so up 4% year over year, which is obviously different than the rate increases you've been putting through closer to 14%. So I just want to make sure I understand that correctly. Is that just because simply not all customers wanted to take the rate increase?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Yeah. So a couple of factors there. First of all, recall that when we say there's a 14% increase, that's the increase if they kept benefits the same. But many times when stop-loss Clients, they're facing a rate increase, they'll buy down the benefit by taking a bigger deductible. So the net rate increase is usually coincidentally about half.

So if you get a 14% rate increase, you might have a 6% or 7% impact on revenue. So now you know what the 4.5% increase year over year in revenue that, that doesn't seem like a great deal, considering the rate increases.

And that's true. We've been emphasizing maintaining our margins over significant growth at this point in the underwriting cycle. So our loss ratio right now is solidly in the mid-70s. You may have seen a couple of large competitors report loss ratios over the past week of 90% or above.

And one of the ways that we keep that loss ratio very favourable, that, by the way, generated a 9.5% after-tax margin in the stop-loss business in Q1, which is above our target of 8%. And the way we're able to do that is by being conservative on pricing at this point in the underwriting cycle.

As others start to put through bigger rate increases and the market hardens, we would expect to see sales and net growth pick up. And in fact, sales in the first quarter, which is generally a small quarter for sales, were higher than in the first quarter of last year. So we hope we're at the beginning of that part of the cycle now.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

Paul, it's Kevin. I want to take a bit of a step back. And we gave 12% sort of growth expectations in the medium term for the U.S., and we still feel really good about that.

If you look at the stop-loss business, we have scale. We typically have better margins than our competitors. We've seen even outperformance even though it's been challenging in the last few quarters. We have capabilities that we've added there. As a big player, we continue to be a strong player in that business.

Our Employee Benefits Business is doing as well as it's ever done. And the investments that Dan and the team have made into technology and differentiating themselves there has been really powerful. And as we move out of this phase for the Dental into the growth targets that we put, we see that as being part of the tailwind to achieving that medium-term objective.

So if you step back, I think we've got great capabilities in the U.S. We are very dedicated to hitting that 12%. And Dan has built a really good team there to deliver on that. So I think scale is really important. I would also say scale on the Dental side.

Like we talked about all the challenges in Dental. If you don't have scale, getting through those challenges is going to be hard even for a lot of our competitors. So I think we're well positioned. I think we're in the right parts of the business there. And I think we're doing the right things to drive out that growth over the medium term.

Paul Holden - *CIBC World Markets - Analyst*

Got it. That's all helpful. I'll just stick to my two questions, so thank you.

Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - *Cormark Securities Inc - Analyst*

Thanks. Maybe just two quick ones here for me. Just first on the Dental business. Is that US$100 million in dental earnings include the benefits from the retroactive premium payments? Or are those kind of on top of the US$100 million target for 2025?

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Well, anything that generates underlying net income is part of the calculation, of course. And I think the way to think about these retroactive payments, they're not a gift. There's something that is part of the -- becoming part of the regular process as states look to find ways to fund these programs correctly.

So as I mentioned earlier, two of the last three quarters, we've had a retroactive premium. So that's something that may happen periodically versus something that's unrelated to the current results.

Lemar Persaud - *Cormark Securities Inc - Analyst*

Okay. So that's -- so those payments would be included in part of that US$100 million, bottom line.

Dan Fishbein - *Sun Life Financial Inc - President, Sun Life US*

Yes, any revenue we get would be included.

Lemar Persaud - *Cormark Securities Inc - Analyst*

Okay. Perfect. And then next question on SLC here. Just kind of building on Tom's line of questioning. Would I be correct in suggesting you're likely to handily exceed that $235 million 2025 target based on some of the run ratable impacts we saw for SLC in Q1?

Like I hear you that there's some elements here are one-timers like the seed gains and catch-up fees. But the growth in fee-earning AUM and strong deployments, those are sticky things. And I'm just wondering if my math is correct that it's likely to be well in excess of the $235 million?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

I think that the -- some of the wildcards that we need to think about. We've got some big fundraising this year on Crescent, two in particular that we're working on. And the timing of those closings can make a difference.

And it doesn't really make a difference long term, but it can make a difference in terms of what income hits this year. So I don't know if I'm ready to just sit here and say, yes, it's a guarantee that we're going to blow that number away.

I'll tell you, we feel confident about it. And the trends are -- we feel good about the momentum in the business. But there are some things that are hard for me to predict that could have an influence as to where we end up at the end of the year.

Operator

Alex Scott, Barclays.

Alex Scott - *Barclays - Analyst*

Hey, good morning. I had one for you on MFS. Flows actually showed a little bit of progress, which was good. I think in some of your comments, you mentioned that your Clients are still continuing to look at allocations and so forth.

I just wanted to understand that comment and if that's indicative of anything in the pipeline you're seeing. Just trying to understand if we could maybe think about this positive momentum flows being less negative is something that could continue? Or is this more of a blip and you're still seeing a lot of activity there in terms of pressure?

Ted Maloney - *Sun Life Financial Inc - President & Executive Chairman, MFS*

Hi, this is Ted. I think the comments were meant to be more of a continuation of what we've seen. I think the blip was actually, we hope and we think in Q4, where a number of redemptions were pulled into one quarter in the current trends we've seen have been spread across more. But that's how [DD1]happen.

So I think the point is that a lot of the trends that we've seen in data persisted. I think what changed in the quarter, of course, is that you had a lot of volatility that led to some retail outflows picking up. But actually, the institutional side was significantly less bad than Q4.

So the retail outflows are an industry phenomenon, our share remains very strong. And so we'd expect that as money comes back in, you would come back into us. But largely speaking, flows -- nearly impossible to predict quarter-to-quarter, but the trends that we've seen in place remain in place.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

I think that -- Ted, your answer was a little choppy. So it's Kevin. Maybe I'd just say that, as Ted was saying, most of the outflows in the quarter were related to the U.S. retail business, where -- we all know what happened to equity markets in the U.S. and what typically happens is in their outflows and the industry was outflows and MFS was roughly consistent with those outflows.

And on the institutional side, it was much closer to flat. And I think that again, MFS has great long-term performance. They know how to run money and that they're coming through is still an at-scale industry leader in that business. And we're starting to see flows to fixed income and active ETFs, as I mentioned in my earlier discussion. I think that's a positive as we look forward as well.

Alex Scott - *Barclays - Analyst*

Got it. Very helpful. Maybe if I switch gears to Asia. Hong Kong sales are really strong. I was just hoping maybe you could give us some colour on some of the things you're doing to drive the strong sales.

And then along with that, I understand there's a wide range of outcomes from tariffs. But I guess maybe just high level, how sensitive do you think your sales would be in Hong Kong to a deteriorating economic environment?

Manjit Singh - *Sun Life Financial Inc - President, Sun Life Asia*

Yeah, good morning, Alex. It's Manjit. As I've mentioned before in previous calls, we've made a lot of investments and have a lot of momentum in our Hong Kong business across a number of dimensions. We've invested in our agency force. That's gone up more than 50% over the last couple of years, and that's helping to drive good volumes.

About 18 months ago, we also launched a new banca partnership with Dah Sing, and that's doing -- and that's doing very well, in fact, ahead of our business case. And we maintain a very strong position in the broker channel as well.

So all of those things are working for us. And then you marry that up with a great brand, good products and a good Client proposition, and that's really driving good momentum in the business.

I mean in terms of the macro environment, obviously, I can't predict where that's going to go, but I feel very good with how the business is performing and how we're positioned. And I think that will help us manage through the conditions that we see going forward.

Kevin Strain - *Sun Life Financial Inc - President, Chief Executive Officer*

It's Kevin, Alex. Hong Kong has also had an incredible resiliency and it's a really important market for all the life insurance wealth businesses in Asia. And I think what we've done, and particularly well in the last 2 years, 12 months under Manjit's leadership is really drive distribution through our agency force, which is growing through our new relationship with Dah Sing and having good relationships with the brokers in Hong Kong. And so we've been seeing -- the industry overall has seen strong results, but we've done really well there.

Operator

Gabriel Dechaine, National Bank Financial.

Gabriel Dechaine - *National Bank Financial - Analyst*

Just a quick one on SLC. What I'm hearing from the private equity industry, I mean we all know this at this point, but just to frame it, higher interest rates, volatile markets, not good for monetization and some are pushing back expectations. I'm wondering how that dynamic plays into the outlook for SLC?

I know it's not a private equity in the private equity industry necessarily, but you do rely on monetizing assets to make money at some point and that generates performance fees, et cetera. Is there any commentary on the outlook for monetization that you believe need to be addressed?

Steve Peacher - *Sun Life Financial Inc - Executive Chair, SLC Management*

Yeah, Gabriel, you're right, it does have a secondary impact, an important one on our private credit business. And it can cut both ways.

So this quarter, I think you see on the slide at the bottom, net deployments and deployments were up strongly this quarter, which is a good thing because in the funds we manage at Crescent, we start earning fees as we get the money deployed.

And then on the flip side, if a private equity portfolio company sold and they repay the debt, then that becomes money that comes back to us and we distribute it out to our LPs, which is a great thing. But it does mean that assets under management can go down.

So we've seen less activity in the private equity world for the reasons you cite. The good news is that means some loans that we have are outstanding longer than they might otherwise be, but it can also mean that there's just less deal activity, so we have less opportunities to invest new money. So it can cut both ways, I guess.

Gabriel Dechaine - *National Bank Financial - Analyst*

All right. And then I'll sneak one on MFS. We talked the rebalancing stuff, we hear about the rebalancing as the reason for outflows, which we're seeing that. But on the institutional mandate, it's nearly $10 billion of inflows. That's been in the $5 billion to $6 billion range for the past number of quarters. I'm wondering if MFS' style is maybe back in vogue or back in fashion or something else?

Ted Maloney - *Sun Life Financial Inc - President & Executive Chairman, MFS*

So yes, I mean, we -- the flows are broad across the board. Kevin highlighted that our net flows are positive in fixed income, which is true across institutional and retail. So that's a factor. But then also, we have a very strong international equity franchise that continues to be in pretty meaningful inflows, both retail and institutional and that has been a driver, particularly of the institutional flows that you mentioned on the equity side.

So yes, negative net flows always include some positive gross inflows and those trends that are in place there, we do think that's part of why the math has led to less negative flows, and we would expect that to continue over time with a lot of lumpiness.

Gabriel Dechaine - *National Bank Financial - Analyst*

Yeah. Can you remind me the split of international AUM? I don't know if it's trend is going to last, but clearly, there's money moving out of the U.S. market and going elsewhere?

Ted Maloney - *Sun Life Financial Inc - President & Executive Chairman, MFS*

Yes, we can follow up with you on the precise numbers, but it's a meaningful part of our business. Where it gets complicated is a meaningful part of our business that's global, right, which is a combination of U.S. and international.

And also just to be clear, we're talking about the companies that we're investing in on the equity side, not the Client type, right? So investing in international non-U.S. global mandates. But we can certainly follow up with you on the precise split.

Gabriel Dechaine - *National Bank Financial - Analyst*

We could take it offline as they say.

Operator

We have no further questions at this time. I will turn things back over to Ms. Brady for closing remarks.

Natalie Brady - *Sun Life Financial Inc - Senior Vice President of Capital Management and Investor Relations*

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 brings to an end today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

[DD1]Note: this is indiscernible - we don't know what it is but it is definitely not "loans"
