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PRESENTATION

Operator

Good morning, and welcome to the Sun Life Financial Q1 2026 conference call. My name is Gaylene, and I will be your conference operator today. (Operator Instructions) The conference is being recorded. (Operator Instructions)

The host of your call today 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 - Capital Management & Investor Relations

Thank you, and good morning, everyone. Welcome to Sun Life's earnings call for the first quarter of 2026. 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, Tom Murphy, President of Sun Life Asset Management, will provide an update on our Asset Management businesses. Following Tom, 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

Thanks, Natalie, and good morning, everyone. Turning to slide 5, we delivered solid first quarter top and bottom-line results. Underlying net income was \$1.05 billion, with EPS growth of 4% over first quarter last year, and underlying return on equity was 18.6%, on path to achieve our MTO of 20%. Reported net income was impacted by market adjustments, as well as a few one-time items that Tim will discuss in more detail.

Strong protection income results were driven by growth in Canada, Asia, and U.S. stop-loss. In Sun Life Asset Management, MFS had consistent earnings year-over-year, reflecting market conditions.

SLC management results were below our expectations reflecting the absence of catch-up fees and lower seed income this quarter, which were both strong last year. We expect SLC earnings to rebound solidly over the remainder of 2026.

For top-line, insurance sales saw significant growth, driven by sales momentum in Asia and continued solid sales in the U.S. Asset Management gross sales remained strong across MFS, SLC, Canada, and Asia. MFS U.S. equity outflows increased in the quarter, amid the broader industry-wide dynamics impacting the U.S. mutual fund market.

We ended the quarter with a strong LICAT ratio of 143% following the completion of the BGO and Crescent acquisitions. This quarter, we announced a 4% increase to our common share dividend to \$0.96 per share. And we also announced a renewed normal course issuer bid to repurchase up to 10 million shares, reflecting strong cash flow and a focus on execution across our businesses.

Turning to slide 6, we are making significant progress across our key strategic areas. At SLC, we achieved several significant milestones including completing the acquisitions of BGO and Crescent, advancing leadership alignment through the launch of our management equity plan, and announcing our intention to acquire Bell Partners. We are confident in SLC achieving their medium-term growth targets. Later in the call, Tom Murphy will share a few words on the Sun Life Asset Management platform and the growth opportunities ahead.

Staying on Asset Management. In Canada, growing our wealth businesses is a key focus. Sun Life Global Investments continues to build its ETF platform with the addition of two MFS powered low-volatility equity strategies.

Turning to Asia, we are seeing strong momentum, with sales up 49% over last year, exceeding \$1 billion in a quarter for the first time ever. Growth was led by Hong Kong, where sales grew 75% driven by double-digit sales growth across all channels.

Indonesia also delivered strong performance on the ongoing strength of our expanded CIMB Niaga partnership. Our relationship with CIMB Niaga goes back 20 years. Together, we continue to innovate and partner to deliver exceptional solutions for our Clients in the market.

We also saw good sales momentum in High Net Worth, India, China, and Malaysia. CSM in Asia reached \$7 billion, up 12% year-over-year, reflecting the quality of our sales growth.

In the U.S., we delivered strong sales results. The rebuild and refocus of our U.S. Dental business is progressing well. We are focused on executing against a targeted strategy to increase our share of the commercial dental market to deliver stronger margins and improve profitability over time.

Helping members access care and improve health outcomes sits at the core of our U.S. strategy. Guided by this focus, we expanded Sun Life Expert Cancer Review. This service supports members facing a cancer diagnosis with access to objective second opinions, helping them attain the treatment plan best suited for their needs.

We continue to advance our digital capabilities across the organization, with a focus on delivering improvements in both Client experience and business efficiency globally. In Asia, our Hong Kong business expanded their data-driven underwriting, increasing straight-through processing and enabling faster Client onboarding. In Malaysia, we deployed an AI-assisted talk bot, expanding servicing capacity and creating more timely and consistent engagement with Clients. In Canada, we are continuing to scale AI across the business, with advisors using AI-enabled tools to support Client conversations. Our operations employees are leveraging AI to access information more quickly, and more than 90% of our developers are using AI to improve efficiency and the speed of delivery.

Building on this broader adoption, straight-through underwriting increased to 40% for eligible individual life insurance applications, up more than 50% year-over-year. This reduced average issuance time from 25 days to 11, enables faster policy delivery, and improved operational efficiency. These examples demonstrate how digital investments are enhancing Client outcomes while enabling more efficient, scalable growth across the businesses.

Turning to slide 7, we delivered solid first quarter results, progressing against our Medium-Term Objectives. Underlying earnings per share growth of 4% reflects our solid businesses. Our underlying ROE of 18.6% and dividend payment ratio of 49% are aligned with our Medium-Term Objectives.

Our four pillars are well-positioned to deliver our Medium-Term Objectives. Canada continues to anchor Sun Life's performance and reinforces our role as a trusted partner to millions of Canadians. Asia is performing strongly, driven by growth in the high-net-worth and middle-class markets, and solid execution. The U.S. is focused on scaled, capital-light group benefits businesses in a growing and increasingly complex healthcare market. At Sun Life Asset Management, our scale and broad capabilities enable our resilience to manage across cycles and leverage synergies from our protection businesses.

Our purpose continues to guide how we serve our Clients, while the strength of our diversified business mix and global capabilities positions us to navigate the current market conditions and geopolitical uncertainties with confidence. Across our businesses, we are making clear progress against our strategic priorities, supported by strong fundamentals and disciplined execution. Looking ahead, we're confident in our ability to continue creating value by executing on our strategy with focus and consistency.

With that, I'll turn the call over to Tom, who will walk you through Sun Life Asset Management, what the platform looks like today, and where we see opportunities to grow.

Tom Murphy - *Sun Life Financial Inc - President - Sun Life Asset Management*

Thank you, Kevin. I'm excited to share some updates on the Sun Life Asset Management pillar. As Kevin mentioned, this quarter, we took two major steps forward with SLC. First, we completed the buy-ups of BGO and Crescent Capital. Second, we launched our management equity plan with over 300 of our most senior people investing their personal wealth in the future of the business. We see this as a strong statement of intent, as it creates alignment between our employees, Clients, and shareholders.

During 2026, SLC will move from a group of related affiliates to a \$400-billion singular global asset management platform. As such, this will be a moderate growth year for SLC, and there is significant room for growth in the years ahead. We remain committed to our previously communicated medium-term targets.

Sun Life Asset Management was established to accelerate the growth of our asset management businesses, and specifically to unlock opportunities between our asset management, insurance, and wealth businesses. We are starting from a position of real strength, with \$1.4 trillion in assets across equities, fixed income, real estate, infrastructure, and alternative credit.

Let me share a few areas that we are working on. For SLC, we are focused on enhancing access to seed capital, the life blood of any alternative asset manager. Seed capital is critical as we incubate and launch new funds. We are also pursuing sources of permanent capital, which will create scale benefits for SLC and boost future revenue and earnings.

Bringing our pension risk transfer business into Sun Life Asset Management was a deliberate move to source strategic capital for SLC. In return, this allows our pension risk transfer business to better leverage SLC's investment capabilities, to enhance their Client value proposition, and to grow their market share.

Turning to MFS, we see significant opportunity to grow alongside Sun Life's Wealth businesses. We have room to grow our AUM alongside SLGI and Group Wealth here in Canada, and there are further opportunities to help MFS grow in Asia through our Hong Kong MPF business.

Many of the opportunities within our insurance and asset management flywheel can be fueled by both internal and external capital. With this in mind, we are proactively engaging with insurers, reinsurers, pension funds, and sovereign wealth funds to create sources of seed and permanent capital, and with wealth providers for enhanced distribution opportunities.

We also continue to add new investment capabilities. During the quarter, we announced our intention to acquire Bell Partners, which will boost our U.S. multifamily capabilities; while at Crescent, we are investing in new adjacent credit capabilities, which we believe will bring value to Clients and boost future earnings.

Finally, we are proud of our joint venture with Aditya Birla in India. Today, Aditya Birla Sun Life AMC has \$60 billion in AUM. It's growing quickly and has strong margins. We believe the alternatives market in India is at an early stage of development and is primed for future growth. Our combination of global and local resources positions us very well to capture this opportunity.

Our \$1.4 trillion asset management pillar covers an enviable range of asset classes and is truly global in nature. We are well positioned and excited by the journey that lies ahead.

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

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

Thanks, Tom, and good morning, everyone. Turning to slide 12, we reported solid underlying net income of \$1.05 billion in Q1, consistent with the prior year. Reported net income, before notable items this quarter was \$775 million, reflecting \$220 million of market impacts, primarily related to yield curve movements and equity market and real estate performance below long-term expectations. Total reported net income was \$465 million, which includes two previously disclosed items: \$165 million charge related to the completion of the BGO and Crescent acquisitions, and \$145 million provision for a previously disclosed proposed legal settlement.

Turning to slide 13, total insurance sales increased 17% over the prior year to \$1.7 billion. Individual insurance sales were very strong, reaching a record \$1.2 billion in the quarter, up 32%, with growth largely driven by Asia across multiple markets, led by Hong Kong and Indonesia.

Group insurance sales were \$552 million, reflecting continued progress in the U.S., with higher sales across all business segments, led by medical stop-loss, commercial dental, and the timing of large case sales in Canada.

New business CSM grew by 6%, driven by the strong sales growth in Asia. Gross flows were up modestly, driven by higher fundraising from SLC, higher MPF sales in Hong Kong, and higher group fund sales in India, tempered by lower volumes in Canada. In Asset Management and Wealth, net flows reflected outflows in the U.S. equity products by retail investors and institutional portfolio rebalancing at MFS.

Turning to slide 14, Sun Life Asset Management underlying net income of \$265 million declined 3% year-over-year, largely reflecting the impact of catch-up fees and seed mark-to-market gains at SLC in the prior year, partially offset by higher fee income at MFS and net investment income in the Solutions and Other segment. Reported net income includes the final costs associated with completing the BGO and Crescent acquisitions at the end of March.

Fundraising and deployment activity across the platform remained solid. Gross inflows were led by Crescent's flagship private credit strategies and BGO's European debt platform, alongside continued institutional engagement in MFS, where gross flows were consistent with last

quarter and included 12 new institutional mandates over \$100 million. Net outflows were driven primarily by elevated U.S. equity redemptions at MFS. At the same time, ETFs, fixed income, and SMA products continued to see growth, with \$2 billion in net inflows in the quarter.

Sun Life Asset Managed Assets increased 7% over the prior year, reflecting strong fundraising and deployment at SLC, demonstrating the continued scale of the platform and growth in AUM from positive public equity market performance at MFS despite outflows.

Turning to slide 15, Canada underlying net income of \$370 million increased 7% from prior year, reflecting higher fee income from higher AUMA and strong net investment results in the Asset Management and Wealth businesses, alongside solid performance in Sun Life Health and Individual Insurance. Reported net income of \$87 million reflects the charge from the proposed legal settlement and market impacts from a flattening yield curve and lower equity and real estate performance. Canada's wealth platform reached \$261 billion in AUMA, up 12% from last year, with strong retail advisor activity and market appreciation.

Insurance sales declined year-over-year from a record in Q1'25, which included a significant large-case sale in Sun Life Health. Q1'26 Sun Life Health sales remain above our historical quarterly average. In Individual Insurance, sales declined reflecting lower participating life sales as we continue to focus on optimizing our product mix.

Turning to slide 16, our businesses in the U.S. continue to build momentum. Underlying net income is up 6% from growth in medical stop-loss from strong premiums and cost discipline, as well as solid contributions from In-Force Management, supported by favorable investment results and insurance experience.

Sales were solid across all businesses. Medical stop-loss sales increased 43% year-over-year, building from strong fourth-quarter momentum and continued success in winning high-quality business in a hardening market. This reflects our disciplined approach to pricing and risk selection.

In Dental, we continue to execute on our strategy to improve business mix, and we're seeing solid growth in commercial sales. The decline in premiums this quarter reflects the impact of our deliberate actions to reprice and in some cases, exit underperforming Medicaid business. As expected, this is resulting in lower membership, but an improving loss ratio. As part of this repositioning, the U.S. team remains focused on aligning expenses to the lower revenue base to improve profitability in the near term.

Turning to slide 17, Asia had another excellent quarter, with underlying net income increasing by 23% over the prior year, driven by robust sales growth, lower expenses, and higher investment earnings. Insurance sales exceeded \$1 billion in the quarter, with growth across most markets. Hong Kong individual insurance sales increased 75%, with double-digit growth across all distribution channels, and a 25% increase in agent count. Indonesia delivered 40% sales growth, with higher margins generated by the strong momentum from the CIMB Bancassurance Partnership. New business CSM grew by 23%, driven by the strong sales growth we've seen across Asia. CSM margins reflect increasing competition and the impact of regulatory changes.

Turning to our capital position on slide 18. We ended the quarter with a LICAT ratio of 143%, which decreased 14 percentage points over the prior quarter, with 10% of the decrease driven by the BGO and Crescent acquisitions, and the remainder from the impact of markets and lower reported net income.

We delivered book value per share growth of 2% to \$41.10 and maintained a financial leverage ratio of 23.2%. Total CSM of \$14.7 billion increased 8% over Q1'25, driven by strong insurance sales through 2025, which continued this quarter. These metrics underscore our continued financial strength and provide resilience in more volatile periods.

Turning to slide 19, in the quarter, we returned \$0.5 billion to shareholders through common shareholder dividends, delivering a dividend yield of 4.2%. We also announced our intention to renew our NCIB, subject to regulatory and TSX approvals, enabling the repurchase of up to 10 million common shares, returning capital as market conditions permit. In addition, our Board approved a \$0.04 increase to the quarterly common shareholder dividend.

In closing, our first quarter results reflect the resilience of our diversified business model and the discipline we apply in the execution of our strategy in capital management. We delivered solid underlying earnings, continued progress against key businesses, and maintained strong capital and balance sheet strength, while returning \$500 million to shareholders and preserving flexibility to invest for growth. These fundamentals provide a strong foundation for navigating ongoing market volatility, supporting our strategic priorities, and delivering consistent progress toward our Medium-Term Objectives.

With that, I will now turn the call back to Natalie to begin the Q&A.

QUESTIONS AND ANSWERS

Natalie Brady - Sun Life Financial Inc - Senior Vice President - Capital Management & Investor Relations

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

Operator

(Operator Instructions) Doug Young, Desjardins.

Doug Young - Desjardins Securities Inc - Analyst

Just want to kind of go through the decline in the LICAT from 157% to 143%, because it was a bit of a surprise to me. And maybe you can just walk through, Tim, just the moving pieces, because I thought the SLC buy-in was about seven points, maybe it's now 10, I don't know what's the difference, maybe you can talk a bit about that. And I guess the markets had about one-point impact. Legal provision, probably one impact, and I guess that there wasn't much organic capital generation. But I'm just trying to bridge between the 157% and 143%. Maybe we can kind of start there.

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

This is Tim. Happy to touch on that. So as you noted, the LICAT ratio did reduce by 14% this quarter. We did finish the quarter with a very strong LICAT ratio overall at 143%, but 10% of that was really coming from the SLC acquisitions. That was \$2.4 billion in deployment. And just as a reminder, about every \$250 million in capital deployment equals about 1% on the LICAT ratio. And for the last two quarters, our LICAT was obviously high, as we had pre-funded the acquisitions through the debt. So that accounts for the bulk of the change.

The remainder really is coming from markets, as you noted. That was actually a 2% impact. About 1% was coming from the MetLife legal settlement, and the remaining 1% effectively from dividends and other items. And so overall, that accounts for the 14-point decline, and as I said, finished strong at 143%, and I think we're quite pleased with that being a leading LICAT ratio.

Doug Young - Desjardins Securities Inc - Analyst

Maybe just a follow-up. Okay, so I appreciate that. Can you quantify, because I'm increasingly becoming challenged in doing this, but can you maybe quantify what you view as excess capital and walk through the buckets between like what's in the holdco, excess of what you would want to hold there, what's in the opco? And maybe on the opco side, what do you think is the minimum LICAT and the binding constraints on that side?

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

Yeah, sure. So again, very, very strong capital position. This quarter, we finished at 143%. We have a low leverage ratio of 23.2%, and a holdco cash of \$1.3 billion.

And when you look at the composition of capital, the move to IFRS 17 really changed the overall composition for the industry. And so in our case, 60% of the LICAT ratio is comprised of the contractual service margin and the risk adjustment, which LICAT refers to as a surplus allowance. And both of these are really high-quality capital items as they represent future earnings for us. They also act as a shock absorber for market volatility and economic downturns. And this quarter, we finished with a CSM balance of \$14.7 billion, and that has grown 8% year-over-year. And it's not currently liquid, but it converts to earnings over time at about 8% to 10%.

So on your comment, to get a sense of our deployable capital, really I think you should think about that as our holdco cash balance as well as our surplus balances, and that broadly reflects our deployable capital. The remaining part of our capital has been deployed in our business, and that's generating a great return, as you can see in our results. This quarter, we had an ROE of 18.7%, and we're making solid and consistent progress toward our medium-term objective of 20%. So hopefully, that gives you a good flavour of how to think about our capital, and also the proportion that's deployable.

Doug Young - Desjardins Securities Inc - Analyst

Yeah, let me just follow-up, for the sake of time, on that. And lastly, you're planning to put an NCIB in for 1. -- I think it's 1.7% of shares outstanding. And Kevin, I guess my question is, if you go through this, let's say, by mid-year, would you reload on this? Because you didn't reload last time, and I get it, because you have the SLC buy-ins come in, but I'm just curious, it doesn't -- it seems like you generate a lot of excess capital, 1.7% of the shares outstanding doesn't seem high. I don't think you're interested in big acquisitions. So if you do get through that faster than you expect, would you reload?

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

I think Tim described it well, right? If you look at the cash at the holdco, that's what we're looking at as being deployable capital and cash, and that's what's formulating the amount of the buyback we're doing. We continue to optimize inside of SLA and moving capital up, and you've seen us do that quite effectively. And we continue to require cash flow out of the businesses and out of the acquisitions we do. So tracking what we've got at the holdco will give you a good indication of what's deployable. And our priorities remain the same. And Tim talked about this, funding our organic growth, funding the dividend, and then we look at M&A where we need scale and where we're looking for capabilities, and we've deployed capital into that.

At this point in time, the pipeline in M&A is quite small, and the execution that we're focused on across the business is quite important to us. So I think you are seeing that deployment of cash and excess cash into the buybacks, but we always keep the flexibility to do different things.

Doug Young - Desjardins Securities Inc - Analyst

Okay. Appreciate that -- (multiple speakers)

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

I'm just going to step back and say, really, if you look at it, the last 10 years, we've deployed a lot of cash and capital into M&A. We've taken SLC from \$0 in third-party assets to \$260 billion, and we think we've built great capabilities across the alternative asset management platform that we didn't have. We've deployed capital into scale and distribution capabilities in Asia, which are serving us really well, and you saw the results in Manjit's business. And we've deployed capital into the U.S., and we think that long term, that's going to be important deployment

of capital to us that we've built out into the dental business, which is one of the core benefits in the United States, and David's working hard on executing on that.

So we've had good results from the deployment of our capital. And at this time, the focus for the businesses is on executing on that. And so when you look at the cash of the holdco, you get a sense of us using that to buy back shares. And I keep monitoring that, and we keep pushing on getting more and more cash up to the holdco, and we intend to deploy it back to shareholders when we can.

Doug Young - *Desjardins Securities Inc - Analyst*

Appreciate the colour. Thank you.

Operator

Gabriel Dechaine, National Bank.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Just a numbers one, if you'll indulge me here. The morbidity experience in the stop-loss business was improved. Can we get a more specific number around that? Because I want to get a sense of how much of that stop-loss repricing and other actions we've been taking has actually had an impact, because it was offset by the Employee Benefits of LTD morbidity, which went the other direction.

David Healy - *Sun Life Financial Inc - President - Sun Life U.S.*

Hi, Gabriel. This is David. Thanks for the question. Yes, the stop-loss business continues to perform very well, and reflecting the quality of the business and the franchise we have. We continue to have a disciplined approach to pricing and risk selection, and our Q1 experience reinforces really the quality of our business and the confidence we have in our current pricing.

So we did see material improvements in that business. It was offset somewhat by more unfavourable disability experience in Employee Benefits business compared to Q1 of last year. Disability in Q4 was actually worse than Q1, but it did improve, but year-over-year, it was down and less favourable. And that's partially because we had a very favourable quarter in Q1 of '25. So consistent with what we're seeing in broader and in the rest of the industry, the disability businesses refer as sort of -- is moving back to more normalized levels, and we expect it to be similar to this in the future.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Yes, that's very descriptive, but you're not sharing any numbers, though. I think the issue in that particular business line over the past year was the negative experience, and we saw that in the first three quarters. You took some actions, and to get confidence in the effectiveness of those actions, it would be helpful to get some numbers. Could you give me that, please?

Brennan Kennedy - *Sun Life Financial Inc - Senior Vice President, Chief Actuary*

Hey, Gabe, it's Brennan Kennedy. So the experience in the quarter for that business, the morbidity experience, was \$8 million, in Canadian dollars, so that's the specific number.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

That's for the stop-loss? That's the stop-loss?

Brennan Kennedy - *Sun Life Financial Inc - Senior Vice President, Chief Actuary*

That's right. That's correct.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

Okay. And do you -- okay, well, we could take more of that offline. I guess the dental business, the strategy makes sense. You're exiting some relationships, I guess, more intermediated ones as opposed to direct ones in the Medicaid business. I just want to get a better understanding of how much of that business could be affected so that -- does this quarter's Medicaid revenue represent a new run rate, you've done your pruning, or could we see a dip further? What sort of offset could there be from, you alluded to cost containment and to the improved benefits ratio of the business you're retaining. So I just want to get a sense of if we hit a bottom here or what.

David Healy - *Sun Life Financial Inc - President - Sun Life U.S.*

Yes, it's David again. Thanks for the question. As Tim and Kevin noted, we continue to execute on our strategy and are very much focused on improving the mix of our business. We have been taking pricing actions, and you can see some of that in the change in revenue that we've seen this quarter. And also, of course, growing our commercial business.

Over time, we expect to continue to improve this. Of course, we have a path forward on improving the business and we remain focused on that path. We do expect the business mix to change as we continue to improve our sales and momentum in our commercial business. And of course, we're staying very focused on maintaining relationships where we can have a line of sight to more reasonable margins over the long-term for that business. So we remain very focused on that path, and we're working with our partners to do that. So I expect certainly in the second-half of the year, we'll see continued improvements in this business.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

In the second-half. So I just want a sense of timing here. I get the strategy. We see this from the banks from time to time. They optimize their balance sheet, and that means shrinking the loan book for a certain amount of time, but you get a sense of, okay, we'll be done by then. Is that something you can -- is that what you're telling me? Like the second-half is when you'll be kind of through most of this selective pruning of the customer base?

David Healy - *Sun Life Financial Inc - President - Sun Life U.S.*

Like I said, we continue to execute on that. The external environment is something we're staying very much focused on. So you can see some of the improvement in the loss ratio coming through this quarter as a result of terminations. That's somewhat offset by experience, which continues to change quarter-to-quarter, and something that we'll continue to pay attention to. And then the membership, of course, of existing plans is something that we'll still adjust as well. So all of that is happening while we are focused on expenses and working our way through our plan. So it will be a continued pressured environment in 2026. We know that, but we're focused on the actions to improve.

Operator

Mike Ward, UBS.

Michael Ward - UBS AG - Analyst

I was just wondering if we could run through the drivers of some of the Asia strength, and I guess the sustainability of the earnings strength, but also the growth in sales. I think it was a little bit better than expected. And it's good to see, but I guess we just kind of thought that markets like Hong Kong might slow down a little bit. So just wondering if you could just help us understand what's driving that on the ground.

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

It's Manjit. So as you mentioned, we had a great start to the year in Asia in 2026, and that builds on the really strong performance we've had over the last two years. And we've seen strength across all of our financial metrics, not only sales, but also CSM, net income, and ROE.

And in terms of what some of the key factors are that are driving some of the performance, I think it's a number of things. So one is really, the investments that we've made in distribution are paying off. So we've seen growth across all of our distribution channels. Our agency force is stronger, not just in numbers, but also more productive. We've invested in new bancassurance arrangements over the last two years, both in Hong Kong and in Indonesia, and we're deepening our broker relationships as well.

We're also making investments in brand, and our brand strength is at record levels, and that's a really important competitive factor in Asia. We're also really focused on meeting the needs of our Clients, we put a sharper focus on that, and our Clients' CSAT scores are also at record highs. And then really looking at our end-to-end business processes and making sure that we're strengthening those and delivering really strong client experiences.

And of course, all of that's underpinned by our team, and we've made some investments in our team and really brought in strong talent. So I think all of those things are driving the performance you see.

Michael Ward - UBS AG - Analyst

And then I had kind of a strategic one just on the U.S. for you guys. Where do you see the kind of business mix, or where would you like to see your business mix trend over many years?

And what I'm wondering is, you mentioned not really seeing a whole lot of potential M&A targets. Just wondering if there's areas where you might consider inorganic growth in the U.S.

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

I can start, and then David can jump in. Our focus in the U.S. protection side and the insurance side in the employee benefits space, which is a capital-light business, is really important to us, and we see that as being aligned to our purpose and aligned to what we're trying to achieve. And we've had that focus since the end of the global financial crisis, and it's served us well. So I think continuing to build out on the benefits side and building scale there, which is why we did the dental acquisition and why we did the Assurant acquisition was building scale in that employee benefits space.

We have scale now in stop-loss -- or scale now, we've had scale, we're a leader in the stop-loss side. And we're pretty happy with how that performs and the capabilities we have. We've added certain capabilities around it to make that business stickier, like the Pinnacle Care, and we've talked about that in the past. But that focus on the benefits space and building that out, because it is capital-light and it has been one of our key focuses.

So I don't know, David, if you want to add some colour to that.

David Healy - Sun Life Financial Inc - President - Sun Life U.S.

The only thing I would add is, obviously, we really have a strong portfolio of businesses in the US that we're very focused on how we execute on. As Kevin noted, we are the largest independent writer in the stop-loss business. And the additional capabilities we've added over the last number of years around cost containment, around healthcare navigation are really very important to Clients in this space, especially in a very disruptive healthcare environment.

And then our employee benefits franchise is really strong, and it's now bolstered by the strength of our Dental business, which brings a new element to that business. So we see opportunities to both cross-sell with existing Clients and also get into new segments of the market that we haven't been in historically, on the strength of the platform and the scale of our business now. So it's something we're very focused on. And of course, improving the quality of our business in dental is a key part of that as well.

Operator

Paul Holden, CIBC.

Paul Holden - CIBC World Markets Corp - Analyst

I want to ask a question related to the U.S. business and what we should be expecting in sort of Q1 and Q2 in terms of that improved profitability in stop-loss, because typically, those aren't big experience quarters. So I think when you're talking about the experience in Q1 '26, that would probably be the improvement in 2025 cohort over 2024, and correct me if I'm wrong on that. But really, where I would have expected to see improved profitability is in expected PA or short-term insurance earnings, and we didn't see any growth there. So just curious on those two points, particularly the last one, like with 21% premium growth and I guess an anticipated better margin, why isn't expected short-term insurance earnings growth more than zero?

Brennan Kennedy - Sun Life Financial Inc - Senior Vice President, Chief Actuary

It's Brennan Kennedy. So we do review that expected level at the beginning of each year for each of the group PA businesses, so for the group business in Canada and the stop-loss, employee benefits, and dental business in the U.S. So we reviewed that this quarter.

Specifically to the U.S., we did see increases in the expected or the earnings on short-term business in the stop-loss business, driven by the higher volumes. We saw increases driven by higher margins in the Employee Benefits business, and decreases in the Dental business from both volume and lower margins, so implicit or in the current numbers, there is an increase for the stop-loss business.

David Healy - Sun Life Financial Inc - President - Sun Life U.S.

And Paul, it's David, just to add to that, you're right on in terms of our Q1 performance is largely reflecting experience from the 1/1/25 cohort that has been playing out. So this was the fifth quarter of that. That cohort is now 92% complete, and the experience was very much consistent with our experience in Q4 and gives us quite a lot of confidence in our current pricing and the trajectory for that business.

Paul Holden - CIBC World Markets Corp - Analyst

Okay, that's helpful. So the key message there is stop-loss expected insurance earnings is up, but it's being offset by dental, right? So I think that was the message. Okay.

David Healy - Sun Life Financial Inc - President - Sun Life U.S.

That's correct. Thank you.

Paul Holden - CIBC World Markets Corp - Analyst

Yeah, okay. And then second question for me. Maybe get a better understanding -- sticking with the U.S., maybe getting a better understanding of what drove the growth in earnings on surplus there. It was up \$6 million year-over-year, but then also up \$5 million q-over-q. So it seems like a step function improvement this quarter, so what drove that? And really, what I'm getting to is, is it a sustainable step function improvement?

Brennan Kennedy - Sun Life Financial Inc - Senior Vice President, Chief Actuary

Hey, Paul, it's Brennan Kennedy again. That's primarily trading gains, so I wouldn't call that recurring, but it is -- periodically, we do see trading gains, and in this quarter, we experienced some. So that's driving the majority of the variance that you highlighted.

Paul Holden - CIBC World Markets Corp - Analyst

Okay. That's perfect. Thanks for the time.

Operator

Tom MacKinnon, BMO Capital.

Thomas MacKinnon - BMO Capital Markets - Analyst

Kevin, you mentioned in your prepared remarks you expect SLC to rebound solidly over the remainder of 2026. If we look at SLC, we kind of see there's flat fee-related expenses, and for some time now, and down year-over-year. But we don't see much growth in fee-related revenue. So can you elaborate on how much this solid rebound is going to be and what's going to drive it for the remainder of 2026, and then perhaps what to expect for 2027?

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

I'm going to turn it over to Steve, but you will have heard us say last year that we expected SLC to outperform what it did last year, and we still expect that to happen over the next three quarters, but Steve can provide some more colour on how the business is doing and how it's all come together.

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

Yes. Thanks, Kevin. Tom, thanks for the question. Let me comment on a couple of things, because there are a number of aspects to your question.

The first is, let me comment on the quarter. You mentioned fee-related revenue. Well, there are a couple of things, both on the revenue line, and the fee-related earnings underlying net income were weaker than they have been for the quarter, so let me comment on that. And there were a few things that kind of conspired for the -- to lead -- that led to that this quarter.

First, in terms of revenue, we had a couple of items that I would put under the headline of timing, where revenues came down in the quarter, but we'll be getting them in subsequent quarters as we invest money. And I can give you some examples of that, but that really hit the management fee line for the quarter.

And that was at the same time that we had some seasonality factors. Our property management fees are almost always down in the first quarter versus the fourth quarter because they're based on leasing activity, which is back-end loaded. And on the expense side, we see higher expenses in the first quarter related to employment items tied to bonus payments.

And then the third thing is we often have some other items moving the other way, like catch-up fees, performance fees, and we really didn't have any of those this quarter. So when you put all that together, it led to a weaker quarter.

One of the things you referred to is that if you look in the supplement, you look at the management fee line item, it looks flat over the last number of quarters. It's a bit misleading because in that line item, there are catch-up fees, and catch-up fees move around. So if -- and you can't see this, but if you went back to, say, Q2 of '24 and went through, say, Q3 of this year, management fees, excluding catch-up fees, are up about 10%, and you're seeing that grow with fee-related AUM, and you'll continue to see that.

So I would -- if you look at it quarter-to-quarter, we raised another USD4.4 billion this quarter. Net flows for both fee-earning AUM and AUM were positive USD4 billion. We've basically had a decade of uninterrupted quarterly positive net flows, and we expect that to continue.

And I actually think, depends on some timing of closes, I think you'll see an acceleration of fundraising in the next quarter. And we would expect to see management fees on a quarterly basis start to increase over the course of this year as well.

I think if you think long-term, where the acceleration in growth is going to come from in this platform, and this is a point that may be underappreciated: to date, we've reported SLC as a business, it's actually been four or five distinct, separate businesses. And that's been very intentional because as we bought BGO, when we bought Crescent, we intentionally wanted to leave them alone to manage their businesses. We provided seed capital, but we really did little to try to coordinate that, given the structure of the deals.

With the put calls behind us, really starting at the end of March, we can now manage this business as a consolidated, holistic business. That means two things. First of all, we can present ourselves to the market more as a platform. That's really important as we try to face off with the biggest institutions out there in the marketplace. They want to deal with fewer managers. And then internally, we can take advantage of efficiencies and synergies that we've never pursued, and I can give you examples of that. So that's really where you're going to see the acceleration of growth over the coming years.

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

(multiple speakers) It's Kevin again. I'm just going to say -- sorry, Tom, I'm just going to say we put together a really strong collection of businesses. And as we bring them together, and Steve mentioned about management buying in, and there's great alignment to us growing the earnings. So I would take the 30 as being an outlier in terms of the quarter, and you're going to see some volatility in that business because there's seed capital and catch-up fees and those types of things. But we expect that earnings per quarter to grow over the next three quarters and into the future. We've talked about a 20% CAGR for SLC, and that's still what we see being the target there.

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

It would be a mistake to look at this quarter and think that that has in some ways changed the momentum of the business. It's just not the right view.

Thomas MacKinnon - *BMO Capital Markets - Analyst*

Okay. Thanks for the colour there. Appreciate it.

Operator

Darko Mihelic, RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Hi, thank you for taking my question. I have so many that I'll probably take some of these offline, including the ones on private credit. So I just wanted to focus real quick on the Canadian business, recognizing that your sales mix isn't quite where you want it to be.

So there's two parts to my question. When you -- first of all, what is your appropriate mix, like what do you want to be selling more of? And more to the point for my model, I'm just interested in CSM growth, and noticing that last two quarters, CSM is actually down. It's not a big deal, I get it, but I want to understand better where you can take this to and what I should be thinking about for CSM growth in the Canada business.

Jessica Tan - *Sun Life Financial Inc - President - Sun Life Canada*

Hi, Darko, this is Jessica. I think you're probably referring to our mix of business for individual insurance, which then would be the par and the non-par mix. And I think, as we said last year, it was a deliberate kind of balanced portfolio so that we are much more in tune, both par and non-par.

I think where we want to get to is that I think for the non-par, as you see from last year, we invested a lot both in underwriting, in the way we do our product, distribution, so it has a 10% growth and we intend to continue a 10% non-par growth for the medium-term objectives, so you see a natural rebalancing there.

I think for the CSM growth, you will see that you don't see the split between the total and the shareholder, but total, I think you should expect a positive number. I think if you look at our insurance earnings, from the release of the CSM and the risk adjustment, it should be around 5%, 6%, in line with our MTO. And hopefully, that's helpful.

Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Sorry, the 5% and 6%, do you mean the growth of that in the income statement or the actual CSM?

Jessica Tan - *Sun Life Financial Inc - President - Sun Life Canada*

That's correct, the growth in the income statement. The growth in income statement, which you can infer a bit because we do have, for example, CSM depreciation is about 8%, 9% every year and stuff, so that should be roughly translating to the growth of the pool of the CSM.

Darko Mihelic - *RBC Capital Markets Inc - Analyst*

Okay.

Jessica Tan - Sun Life Financial Inc - President - Sun Life Canada

And then the other thing that maybe I'll note while we're on this, because I hardly get a question, is then on the other parts of the business, I think we've been really growing our wealth and asset management business, as Kevin and Tim were saying, and you can see the other fee income had a huge increase, I think from \$55 million to \$88 million, which is a 60% increase. It's become now 25% of our earnings, which is, I think, due to, I think, both one, AUMA of \$261 billion going up by 12%, so it's a much larger size. And then I think we're also getting some synergies because now our wealth business is actually scaled, so actually it's much more efficient. So I think that will continue to be another strong business earnings growth engine.

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

Darko, it's Kevin. I was running Individual when we reintroduced par into the Individual business, and we never expected it to be such a big component of our sales. We knew it was a good component for Clients, but the profitability is 2.6% of the dividend versus the profitability in the non-par sales. So I think Jessica is bringing that sort of back in line, where we're getting a better balance between par and non-par sales, and more in line with what our expectations would have been a long time ago when we did the strategy.

Darko Mihelic - RBC Capital Markets Inc - Analyst

Okay, understood. Thank you for that. I appreciate that. And just a quick question on the U.S. We can see in this quarter the step function in the premiums for medical stop-loss, which is great. Is there a lag, or is that more or less now the run rate we should think about for this year? And at some point, I'd love to talk about the return on your premiums, but I think you're still maybe, for the whole business, targeting 7%, or should we think about that as maybe modestly being higher, now that the stop-loss is repriced in a hard market and your net premiums are higher?

David Healy - Sun Life Financial Inc - President - Sun Life U.S.

Yes, Darko, it's David, thanks for the question. We obviously continue to see good strong momentum with that business, and we have had an external target of 7% after tax margin for the combined group benefits businesses. And obviously, as this becomes a larger component, that's something that we'll stay focused on and make sure we're above that target over time. At the same time, it is a business that we continue to see a lot of progress with, and I expect that this is what you should expect going forward.

Operator

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

Natalie Brady - Sun Life Financial Inc - Senior Vice President - Capital Management & Investor Relations

Thanks, operator. That will be the end of the call.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.

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