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PRESENTATION

Operator

Good morning, and welcome to the Sun Life Financial Q3 2025 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 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 & Investor Relations

Thank you, and good morning, everyone. Welcome to Sun Life's earnings call for the third 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,

Thanks, Natalie, and good morning, everyone. Turning to slide 4. We had a good Q3 for top line and for bottom line, demonstrating the benefits and strength of our diversified business model. Our underlying EPS was \$1.86, up 6% year-over-year; underlying ROE was 18.3%, progressing well towards our medium-term objective; and our book value per share grew 3% quarter-over-quarter. Individual protection sales grew 35%, Group - Health and Protection sales grew 12%, and we had almost \$3 billion of positive net flows in Asset Management and Wealth.

We achieved strong underlying earnings in Asia and Canada with solid underlying earnings in Asset Management. We continue to navigate the industry challenges in our US business, which performed below our expectations this quarter.

Results in our US business were challenged by unfavourable insurance experience across Group and Dental, reflecting the structural changes occurring in the US health care system, which are driving higher claims frequency and cost. It is important to remember that our US Group Benefits and Dental businesses are re-priceable over a one to three year time frame, and our experience is largely in line with, or better than, industry trends.

Our employee benefits business saw higher disability claims in July, but this started to normalize in August and September, and we see this as normal volatility. In our Medical Stop-loss business, we saw a higher frequency of claims over \$1 million in the quarter, and we increased our stop-loss ratio assumptions to reflect this accordingly. We are industry leaders in the stop-loss business with scale and strong capabilities, and we continue to have industry-leading claims ratios. We have seen cycles like this in the past, where the claims run ahead of pricing, and we continue to be confident in our ability to pick the best risks and manage the pricing.

In Dental, we continue to navigate industry-wide headwinds from the slower pace of Medicaid contract repricing. We remain focused on improving our U.S. Dental business performance through repricing, expense actions, and growth of our commercial business.

In Asia, we achieved double-digit growth -- double-digit protection sales growth in six markets, with new business CSM growing 20% year-over-year and overall CSM has more than doubled over the past three years, reflecting sustained momentum across Asia. In Canada, we continued with strong individual protection sales, driven by solid demand for non-participating life policies sold through both third-party and proprietary channels.

We are also continuing to see steady growth in our asset management net flows, including strong capital raising and deployments at SLC Management and institutional net inflows at MFS. We ended the quarter with a LICAT ratio of 154%, demonstrating our strong capital position, announced a \$0.04 increase to our dividend to \$0.92 per share, and we repurchased approximately \$400 million of shares in the quarter.

Turning to slide 5. We've invested significantly in our asset management business over the past decade and have industry-leading capabilities, which span across public equities and public fixed income at MFS to alternative asset management at SLC. With \$1.6 trillion in assets under management, we are Canada's largest asset manager and are one of the largest asset managers in the world. We also have significant wealth management capabilities in Canada and Asia that we can leverage. \$1.4 trillion of our AUM is managed by our asset management businesses, of which \$1.2 trillion is on behalf of third-party investors.

Our asset management pillar today includes both MFS and SLC. And a few weeks ago, we announced Tom Murphy as President, Sun Life Asset Management. Tom has a deep asset management background. He previously led investment businesses in Europe and the U.S. before joining SLC management in 2018, where he was the President of SLC Fixed Income. Over the past three years, Tom has been Sun Life's Chief Risk Officer. He will assume his new role on January 1, 2026.

It is important to note, there will be no change in how MFS or SLC are managed under this structure. MFS is a global leader in public equities and public fixed income, with a strong management team and a focus on the Client. We support the MFS strategies, including growing

public fixed income and active ETFs, and we saw good progress in both this quarter. SLC has equally strong management capabilities and is equally focused on Clients. We are seeing significant interest in partnering with SLC from banks, insurers, reinsurers, and others, and are focused on unlocking these opportunities.

We see long-term growth potential in Asia asset management. We currently manage over \$140 billion in assets through our general account and wealth businesses. In addition, our asset management JV in India sits at \$65 billion in assets under management. Adding further capabilities in Asia will support growth in asset management and investment returns in our insurance and wealth businesses.

Unlocking the synergies between our asset management business and our insurance and wealth businesses will be an important part of Tom's mandate. I'm excited by the opportunity to accelerate the growth of our asset management businesses globally. We have an excellent mix of capabilities across asset management, insurance, and wealth. Sun Life Asset Management will be an important growth engine for Sun Life going forward.

Turning to slide 6 and staying on asset management and wealth, we saw good momentum across our platform this quarter. At SLC, fee-earning assets under management grew 9% year-over-year, driven by strong capital raising and deployments across all platforms. We are on track to achieve our full year underlying earnings target of \$235 million.

At MFS, net outflows of USD0.9 billion were the lowest since 2021. Strong institutional gross sales of USD12.9 billion included large mandate wins in Separately Managed Accounts and Collective Investment Trusts. We also had solid net inflows in public fixed income and active ETFs. MFS continues to deliver industry-leading pretax net operating margins with a 39.2% margin this quarter.

In Canada, Sun Life Global Investments marked its 15th anniversary of helping Canadians grow and protect their wealth. Since launching in 2010, SLGI has grown to over \$44 billion in AUM and has become the largest Canadian-based provider of target date funds for group retirement plans. This quarter, SLGI launched its first ETF Series in Canada. Leveraging the power of our asset management platform, we are providing investors and advisers with more ways to access the deep expertise of MFS, SLC, SLC Fixed Income and Crescent Capital.

Moving to Asia, we saw robust individual protection sales. Agency sales were up 25%; bancassurance sales were up 36%; and broker sales were up 47% year-over-year, highlighting the strength of our distribution in Asia across channels. Asia asset management gross flows and sales of \$2.2 billion were up 17%, driven by higher fixed income fund sales in India and MPF sales in Hong Kong.

We are poised for growth in Canada, Asia, and asset management, and are focused on aligning our U.S. business for growth in the new realities we face in the U.S. health space. We have strong capabilities in the U.S. health space and scale in these businesses.

They are capital light and they are re-priceable by design. I have strong confidence in the U.S. management team, and we'll work closely with David Healy to manage through the repricing and repositioning that needs to be done for growth. Overall, we are committed to our medium-term objectives of 10% underlying earnings growth, 20% ROE and dividend payouts in the range of 40% to 50% of underlying earnings.

With that, I'll turn the call over to Tim, who will walk us through the Q3 financial results in more detail.

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

Thank you, Kevin, and good morning, everyone. Turning to slide 8. Overall, our third-quarter results reflect the benefits and strengths of our diversified businesses, as strong growth in Asia and Canada and solid results in asset management were partially offset by lower earnings in the U.S.

In Q3, we reported underlying net income of \$1.047 billion, up 3% year-over-year. Underlying earnings per share of \$1.86 were up 6% over the same period. Asset Management and Wealth underlying earnings were up 5% over the prior year on improved credit, higher fee income in Canada and higher net seed investment income at SLC Management. Group Health and Protection underlying earnings were down 18%

year-over-year, driven by unfavourable insurance experience across the US, partially offset by business growth and favourable insurance experience in Canada.

Individual protection underlying net income was up 25% over the prior year on business growth, favorable mortality experience in Asia, joint venture earnings in India and higher investment earnings in Canada. Underlying return on equity was 18.3%, up from the prior year on higher earnings and the impact of share buybacks. Reported net income was \$1.1 billion or 6% above underlying net income, driven by a gain from our increased ownership in Bowtie, partially offset by amortization of intangibles, acquisition-related expenses, market-related impacts, and the impact of our third-quarter review of actuarial assumptions or ACMA.

Market-related impacts reflect unfavourable real estate experience as modestly positive returns in the quarter were below our long-term expectations. We completed the annual review of actuarial assumptions, which resulted in a modest net loss of \$13 million and a \$139 million benefit to total CSM. Total CSM, which reflects future profits, increased 12% year-over-year to \$14.4 billion, driven by strong organic CSM growth. New business CSM of \$446 million increased 16% on strong sales compared to the same period last year.

Organic capital generation, net of dividends, was strong at \$624 million or 60% of underlying net income, well above our target range of 30% to 40%. Our capital position remains strong with an SLF LICAT ratio of 154%, up three points from the prior quarter, driven by a \$1 billion debt issuance executed in the quarter and organic capital generation, partially offset by share buybacks.

Holdco cash was \$2.1 billion, and our leverage ratio remains low at 21.6%. Our book value per share increased 2% over the prior year, demonstrating our ability to generate strong growth, while returning value to our shareholders with over 19 million shares repurchased in the last 12 months and 4.8 million shares repurchased this quarter. Finally, we announced a 4.5% increase to our common shareholder dividend.

Turning to our business group performance on slide 10. MFS's underlying net income of USD215 million was down 1% over the year, primarily reflecting a decrease in net interest income, mostly offset by higher fee income on average net asset growth. Our pretax operating margin of 39.2% decreased 1.3-percentage points from the prior year, primarily from lower interest income. Assets under management of USD659 billion were up 2% over the prior year and up 4% over the prior quarter. The sequential movement in AUM was driven by market appreciation, partially offset by net outflows.

Overall net outflows of USD871 million were at the lowest level since 2021, and included retail outflows of \$4.7 billion and institutional inflows of \$3.8 billion. Retail outflows reflected continued investor preference for risk-free investments and were in line with industry. Institutional gross and net flows were the highest they've been in 10 years, and were driven by several large mandate wins over \$1 billion in Separately Managed Accounts, and new target date product offerings in the defined contribution retirement channel, a key growth segment for MFS. MFS also had positive net flows in public fixed income and active ETFs this quarter.

Turning to slide 11. SLC Management generated underlying net income of \$54 million, up 15% year-over-year, which reflected the impact of higher net seed investment income and higher fee-related earnings. With year-to-date underlying net income of \$184 million, SLC is well positioned to achieve its underlying earnings target of \$235 million for 2025.

Fee-related earnings of \$78 million were up 8% compared to the prior year, primarily from strong capital raising. Reported net income was \$23 million, down from the prior year due to a revaluation gain on acquisition-related liabilities in the third-quarter of 2024.

SLC Management continues to demonstrate strong momentum across the platform with capital raising of \$5.6 billion, primarily in Crescent, BGO and SLC Fixed Income and deployments of \$7.4 billion across all asset classes. SLC's fee earning AUM of \$199 billion was up 9% year-over-year driven by net flows, partially offset by realizations.

Turning to slide 12. Canada reported (underlying) net income of \$422 million, was up 13% over the prior year on strong business growth, favorable insurance experience, and higher fee income. Reported net income of \$414 million was up 8% over the prior year, driven by underlying net income growth and favorable ACMA, partially offset by market-related impacts.

Asset management and wealth underlying earnings were up 19% year-on-year on improved credit experience and higher fee income from AUM growth. Asset management and wealth AUM of \$213 billion was up 11%, with the prior year on market appreciation.

Group Health and Protection earnings were up 15% year-over-year, reflecting business growth, favourable mortality and morbidity experience from lower claims volumes and shorter durations, and improved credit. Group sales were down 21% from last year due to the timing of large case sales. Individual Protection earnings were up 3% compared to the prior year on higher investment earnings. Individual Protection sales were up 16% year-over-year, driven by solid demand of non-participating life products across both third-party and proprietary sales channels.

Turning to slide 13. Sun Life U.S. underlying net income was USD107 million, down 34% from the prior year. In Group Health and Protection, underlying earnings were down 50% from the prior year, reflecting unfavourable insurance experience in Medical Stop-Loss, higher claims frequency in Dental and unfavorable disability experience in employee benefits. U.S. Group Health and Protection sales of USD273 million were up 25% year-over-year, driven by higher large case sales in employee benefits and higher government sales in dental.

In employee benefits, we experienced moderately elevated long-term disability claims in July, which improved over the remainder of the quarter. In Medical Stop-Loss, the unfavourable insurance experience this quarter is comprised of residual claims from the pre-2025 business and the impact of existing pricing shortfalls and moderately elevated claims volumes on January 1, 2025, business. As a result, in Q3, we increased our loss ratio assumption on the January 1, 2025, block for the impact of three quarters of expected experience to date, reflecting our disciplined approach.

In Dental, we continue to experience pricing shortfalls and higher claims frequency in our Medicaid business. In addition, we're seeing seasonally higher utilization in Q3 as the majority of our Medicaid membership base is comprised of children who typically receive dental services prior to the start of the school year.

Individual Protection underlying earnings were up 29% year-over-year on other experience gains, improved credit experience, and higher investment contributions. Reported net income of USD72 million was down 71% compared to Q3 of 2024, reflecting unfavourable ACMA and lower underlying net income.

Turning to slide 14. Asia posted record underlying net income of \$226 million, up 32% year-over-year. Individual Protection earnings were up 38% over the prior year on strong continued sales momentum and in-force growth, favourable mortality experience, and higher earnings in India. Asset Management and Wealth earnings were in line with the prior year.

Reported net income of \$373 million was higher year-over-year, driven by the gain from our increased ownership in Bowtie, favourable ACMA and higher underlying net income. We continue to see strong sales in Individual Protection, up 38% year-over-year, driven by double-digit sales growth across most of our markets and channels. Asia's total CSM of \$6.5 billion grew 17% over the same period last year, driven by strong organic CSM growth. New business CSM of \$322 million was up 20% over the prior year from strong sales.

Overall, our results were underpinned by the growth in Asia and Canada and solid results across asset management. We remain focused on executing the actions to position our U.S. health businesses for growth in the current environment. We are confident that our strong fundamental, diversified business mix and geographies and our robust capital position will enable us to continue to deliver on our medium-term objectives.

With that, I will pass it back to Natalie for Q&A.

QUESTIONS AND ANSWERS

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

Thank you, Tim. To help ensure that all of our 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.

Operator

(Operator Instructions)

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets Inc - Analyst*

Two questions both related to U.S. Dental. The first would be, what kind of expectations do you have for Medicaid repricing to start 2026? What are you hearing from the states, and what should we expect?

And then the second one is maybe talking about growth in U.S. commercial premiums up roughly 6.5% year-over-year, so it's growing. But should we expect sort of reinvigorated efforts to accelerate that growth, sort of diversify away from the Medicaid business?

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

Yes. So thanks for the question, Paul. This is David. So yes, we're very much focused on pricing in the U.S. business. The way to think about it is we have states and direct relationships with them, which is the majority of our business, but we also have a significant relationship with health plans, where we're the delegated provider of dental services. And then we also have ASO business, which is a mix of both states and health plans.

Generally, we're making reasonably good progress with states around '26 with the exception of one large state. Health plans is going slower. We're making less progress. And how we're thinking about it is we continue to focus with them on pricing and repricing appropriately. In some cases, we're making structural changes to plans, including as appropriate, maybe moving from Risk to ASO with some health plans. And also, including maybe terminating contracts if we can't get the price we need.

So we're very much committed to it. We're making progress. I would expect it to be gradual in '26, but we're continuing to stay focused on it. Also on the ASO front, we continue to enhance the value of our services to make sure we're getting paid appropriately for the work we're doing in support of those contracts, but it is slow progress.

With respect to commercial, your second question, yes, we're making progress. Since the acquisition, premiums have grown more than 30%, membership has grown more than 20%. This is an important opportunity for growth for us into the future. As you know, in the U.S. market, outside of health care, commercial dental is the number one sought after benefit after health care, and it's a great opportunity for us to package commercial dental with the rest of our group benefits products, and we have a really strong employee benefits offering and a great distribution system in which to bring that through.

So we're very much focused on that. It will take time, of course, it's a competitive landscape, but we expect to continue to make progress over time with commercial dental sales.

Operator

Alex Scott, Barclays.

Alex Scott - Barclays - Analyst

Hey, I wanted to see if you could talk about the asset management flows. And can you give us a feel for the institutional progress that's been made there? And to what extent should we view that as more lumpiness and some of it driven by more of a single mandate as opposed to the things that you're doing to improve the more medium to long-term trajectory of the flows in the business?

Ted Maloney - Sun Life Financial Inc - Chief Executive Officer, MFS

Sure. This is Ted Maloney. I think lumpiness, the word to use is a really important one to use. And it is a reminder that we do have lumpiness in both directions. And so in the quarter, we got a couple of large inflows that Tim mentioned, that we think are indicative of themselves longer-term trend.

But the broad trends, both institutionally and retail, remained with more headwinds than tailwinds. Some of those headwinds may be lessening on the margin, but the headwinds persist. Within that, we'll continue to have big wins as well as continued losses and in this quarter, we had those couple of big wins.

I can give you a little bit more colour on them, which might be helpful to think about longer term, which is one was a Separately Managed Account within the -- what we would characterize as institutional that is in our -- one of our international strategies, so the world minus the U.S., which is one of the many areas where we have a really dominant set of franchises and are seen as market leaders. And so that's been a nice growth tailwind for us for a period of time and should continue to be, but that was obviously a very big chunk of a tailwind.

The other is actually smaller, but perhaps more exciting. Tim mentioned this as well. The Collective Investment Trust vehicle is the most important vehicle in the retirement space. And there is a unique feature to it, which is that you can't seed it yourself, you need a client to be an initial investor. So getting that first investment in a target date CIT was a huge win on its own, but also allows us to fund CITs across all the components of the target date. So we think that's another one that will provide long-term tailwinds.

But again, I do want to reiterate, the headwinds across the industry that we've been talking about for a long period of time persist. We are executing well, we believe, within those headwinds. They may be abating slightly on the margin, but we are not declaring a change to that. Our long-term strategy very much includes long-term net flow positive growth over time. We think we've got a very clear strategy to execute on that, and we'll continue to do that. We'll need some help from those industry headwinds abating.

Alex Scott - Barclays - Analyst

That's helpful. Second one I had is on stop-loss. I wanted to see if you could provide a little more detail around how much of it this quarter was unfavourable development from earlier or loss picks that were made earlier in the year. And maybe further to help us think through, how much of the cash claims do you still have to come in? And are we getting late enough in the year that it--s potentially becoming a little too late to reflect what you're learning in the 1/1/26 renewals?

Or do you feel like you are fully getting that? I'm just trying to get a better sense for what to expect going into next year.

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

Okay. thanks for the question. It's David again. Yes, let me just break down the unfavourable insurance experience for medical stop-loss in the quarter. There was really three factors involved. About 20% of it was related to the pricing shortfall that we've previously discussed on

this call that we knew this year. 35% of it was related to late emergence of claims from cohorts prior to 1/1/25, including one large claim that came through in the quarter. And the rest, just under half, was related to the 1/1/25 cohort itself.

So we did see a higher number of greater than \$1 million claims late in the quarter. So we did update our loss ratio pick for the year. It's important to know that as a result of doing that, it reflects really three quarters of updates to reserves, as Tim had mentioned, for Q1, Q2 and Q3 premiums that came in.

You'd also asked about pricing and I think how we're looking at it for 2026. Well, obviously, U.S. health care costs are elevated. Medical trend has been rising to 8.5% this year, and we expect that to continue into 2026. And our pricing reflects our view of leverage trend, and it's also considering recent experience. So we continue to stay focused and disciplined in our pricing approach.

You asked about how much of it has come through. In terms of what we see at this point in the year, obviously, Q3, we had enough credible claims to be able to update our loss ratio pick for the year. We typically see about 30% of our claims by Q3 and then a further 30% come through in the fourth quarter. So it's still early in the cohort of 1/1/25, but we're certainly updating our view on experience as we see it.

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

Alex, it's Kevin. I just wanted to maybe sort of reiterate from what David was saying. We expected a significant increase in price when we went into this year. We increased prices by 14%. And as we saw the year-end experience, we added another 200 basis points to that. So we continue to see that trend. And then this quarter, we added another 1% approximately, which was for the three quarters sort of experience we were seeing.

This business is re-priceable, but when costs are rising so rapidly, it's hard to keep up with that repricing. But over time, we will be able to do that. We have confidence in our ability to do that because we do have scale and we do have good risk selection there. But when costs and claims are rising so rapidly, we can lag a little bit, and we've seen that in the past. So I think that we're taking the right actions.

A chunk of what you saw this quarter was for the year-to-date, but it all reflects that increasing claims experience that we're seeing at the higher end, which I referenced in my speaking comments.

Operator

Gabriel Dechaine, National Bank Financial.

Gabriel Dechaine - National Bank Financial Research - Analyst

Yes. So if I understand correctly, your 17% of the total repricing target, and that's the number you'll try to have fully embedded in the book by Jan 1/26? And I guess aside from pricing actions, what are the -- and the timing of the effectiveness, what other considerations are there? It's one thing to just increase pricing, but market share impacts, there are some known unknowns, I guess, because we saw that with Dental where there's a dynamic with the counterparties that wasn't anticipated. And I'm wondering if there's a similar kind of dynamic that we should be aware of when repricing or seeking repricing when it comes to this stop-loss business, which is a commercial one, not the state.

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

Yes, Gabe, it's Kevin. Let me just -- since I mentioned the 14 and the 2 and the 1. That's for this year, right? That's what we would have -- that's what we thought we would have priced at if we had all the full information of how claims were coming through. So that's related to this year, and we're going through the repricing for next year right now. So I'm not signaling what we're doing for next year, but maybe David can go into some more detail.

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

Yes. Just to add to that, as Kevin noted, we do have a typical underwriting cycle in this business, and there are times when claims can come out ahead of pricing updates, and we've seen this before. Historically, you've had amongst the lowest loss ratios in the industry, and we continue to do that. There are other things, of course, we're doing. We have a very talented team.

We're not just only focused on pricing, although it's a specific focus for us. We continue to build out our cost containment programs, which are really important. We have expert clinical capabilities. Our clients are really seeking out more cost containment support in light of the rising health care costs. And then we have care navigation capabilities as well, which we're building that help support employers and their employees as they deal with the escalating costs in the U.S. health care system. So we're confident that we can work through this. We have an industry-leading position, and we're certainly continuing to stay focused on it.

Operator

Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Maybe you can share with us sort of an outlook for the Medicaid Dental loss ratio going forward? How much is that going to be improved as a result of any pricing benefits? And as we move into 2026, would you reset your expected your earnings on PA business in the US as a result of perhaps a different expected loss ratio for U.S. Medicaid Dental?

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

Yes. So I noted that we're very focused on pricing and working through them on a state-by-state and contract-by-contract basis. What we're seeing at the same time is we're seeing rising utilization in the U.S., and that has eaten up some of the pricing gains that we even saw coming through this year. We're still seeing a pretty conservative view on forward-looking trend and utilization. And so we're certainly trying to influence that in what we're doing and the work we're doing with states and health plans, but it is gradual progress that we're seeing and that we're expecting to make.

Tom MacKinnon - *BMO Capital Markets - Analyst*

So if you were to maintain your best estimate here in terms of your Medicaid Dental loss ratio. Is the outlook for continued negative insurance experience with respect to this line at kind of the same level that you had in the quarter? Or should it improve?

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

So it's important to note that this quarter is a seasonally high quarter. As Tim noted, we do typically see this in the third-quarter. We insure a lot of children, they go back to school. They use the dentist a lot in this quarter. It's traditionally the highest quarter in the year.

Q4, by contrast, is the most favourable quarter. And so we do expect things to improve in the next quarter. And like I said, going into 2026, we do expect gradual improvement in the loss ratio as we move forward, and we'll continue to work through that.

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

Tom, it's Brennan Kennedy. Just on your question about the reset, the earnings on short-term insurance. So we do reset that at the beginning of the year, looking at the premiums in force and the pricing assumptions that are in effect.

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

Tom, it's Kevin. I would say that there's a variety of reasons, but I've been following the benefits business a long time. And when people think their benefits are going to end, because they're going to retire or something is going to happen to it, they tend to use them more. And I think that's what we're seeing in the U.S. Medicaid dental space. There is concern that they'll be losing those benefits, and so they're utilizing them. There's other factors, but that's a big one.

We do continue to believe that over time, the states will reflect -- this is an important benefit. David talked about it. It is an important benefit for people. And the states will reflect that, that cost and that need. It just will take some time to come through.

So we still believe that this is going to turn. But as I was saying earlier, when you're in a rapid change in terms of utilization, it can take a little bit of time to get that reflected in the price. So it's not -- it's more of a shorter-term issue, one to two years. And over the longer term, we expect that to come back to more of our pricing levels when we did the deal.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Great. And then as a follow-up, I mean if I look at the organic capital you generated and you had the dividend here, it's over 100% of your underlying earnings. And that's been a trend that's been -- we've seen over the last several quarters here. So why not step up on the share buyback? I realize you've got some money here to be earmarked for SLC buy-ins.

But if you're generating capital at this kind of rate, why shouldn't you step up the share buyback here to offset any kind of pain you might see from some of the Dental?

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

Well, Tom, as you know, we have the remaining purchase for SLC early next year for the BGO and the Crescent transactions. And so our current capital position does reflect that, and we're preparing for that transaction, which will be around \$2 billion.

Historically, we've also run the buyback at roughly what we're generating for capital, and we're committed to seeing the current buyback through, and we're committed to buybacks on a longer-term basis as one of our tools to manage capital levels. So I think you're going to see us be active on the buyback that we have in place. And you're going to see us be committed to the capital priorities that we've had, one of those being the buyback. And I think that consistent approach to the buyback is something that we think is important and valued by our shareholders.

Operator

Doug Young, Desjardins Capital Markets.

Doug Young - *Desjardins Securities - Analyst*

Just maybe -- I apologize, back to the U.S. medical stop-loss business. I just want to make sure I understand this. So based on your description, it seems like you've had a 2% shortfall that's been running through and you had 3% shortfall coming through this quarter, which, if you add

up, make up the last few quarters. So when we look forward to Q4 and we think about the experience that should flow through in Q4, it should be about a 3% loss ratio shortfall. Do I have that correct? Any way you can quantify that?

And then second part of the question, are there ways you can temper the volatility, such as being a little bit more conservative on the reserve pick early in the year in these times of uncertainty and higher medical cost inflation. I just thought I'd throw that out there.

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

Yes. So in terms of the -- quantifying it for Q4, I'd say -- like I said, the 1/1/25 cohort we did update our ultimate loss ratio for the year because we did that, it reflected reserve updates for the first three quarters. So in Q4, you would expect it to be a third of that. So it would be a smaller amount in the single digits. And so that's how you should think about it. It was updated by just over one point from where we had it before.

Doug Young - Desjardins Securities - Analyst

Sorry. And then just -- so single-digit U.S. dollar millions is the negative impact for Q4 and the experience? Is that what you suggested?

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

That's what our current projection is based on our cohort and how it has evolved so far. Obviously, it could get a little better than that or it could deteriorate further. We've seen about 30% of the claims volume that we expect on that cohort. We'll see another 30% in Q4, that will be a more meaningful view of what the ultimate loss ratio will be for this cohort of business from 1/1/24.

Doug Young - Desjardins Securities - Analyst

And then I don't know for David or for Kevin, just in terms of just mitigating the volatility in terms of, is there ways you can be a little more conservative with the reserve picks early in the year? And similar to like property and casualty insurance and reserve developments is the way I think of it. And just like -- I think I've asked this before, but has there been any conversations around that?

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

Hey Doug, it's Brennan Kennedy. So using our current method, this is the volatility we see. We continuously look at ways to refine things that we're doing to maintain best practice, and this is something that we've had discussions on and we will take away.

Doug Young - Desjardins Securities - Analyst

Okay. And then just second, maybe for Manjit. Asia underlying earnings, 16.2%. I think you've hit your target already. Is there anything unusual this quarter? Is this kind of like the new sustainable run rate? And can you talk a little bit about where you think you can take that underlying ROE in Asia?

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

Doug, it's Manjit. So as you noted, we've had some pretty strong performance in Asia over the last little while. I'm pleased with what we've been able to deliver. We've delivered 17% earnings growth last year. And year-to-date, we've delivered 20% growth.

And I think there are a number of factors that's driving that growth, Doug. So first of all, I feel we have very good fundamentals. We're in attractive markets with high growth potential. We have good partnerships across the region. We've got strong distribution across banca, agency and broker, and we've got a talented team. We've also made some pretty good investments over the last little while.

We've invested in digital to increase our straight-through processing. We've invested in delivering better client experiences, which has resulted in record high client satisfaction scores and also in our agent experience. We've also invested in our brand, and that's also resulted in record high brand awareness.

And the third thing I'd point out is that we've also increased our focus and capabilities to drive strong execution. So I think all of those things are contributing to the strong results that you're seeing.

In this current quarter, the results did reflect some favourability that we had in high net worth mortality as well as some strong security gains. So those will bump around quarter-to-quarter. You won't necessarily see them in every quarter. Some quarters, it might go a little bit the other way. So I think fundamentally, we've got a very strong business and expect to see strong performance in Asia going forward.

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

Doug, it's Kevin. Sorry, I'm just going to say it's been a long time since we've seen six of our eight markets growing in double digits. I think Manjit's doing a good job creating momentum across the Asia platform, and I think that's really important. And it's all the -- it's a whole bunch of factors, but leadership matters, and I think he's doing a great job driving that change in the Asia outlook.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - TD Cowen - Analyst

I want to look beyond 2025 in medical stop-loss and think about '26 and help me sort of game this out. But assuming the company is sufficiently conservative in building the reserves throughout the year and again perhaps in Q4. And you've got it right, assuming everything works out right, would it then be appropriate to assume that the experience gains and losses that we see in the U.S. would relate solely to Dental and solely to experience on the 2026 cohort? Is that the right way to think about it?

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

Hi Mario, it's David. Yes, that's a fair assumption.

Mario Mendonca - TD Cowen - Analyst

And then -- so help me then go through the next level. So if you get that right, then growth in this business then, of course, there would be a change in the level of experience gains relative to last year, that certainly helps. But what's the other big driver? Would it simply be the net premiums in the business and the extent to which that grows or perhaps shrinks as you push through some significant pricing increases? Is that the way to think about it, that the base from which the short-term insurance earnings emerge could potentially decline during the renewal period?

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

That's the way to think about it is the base of premiums does drive ultimately the earnings over time.

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

Sorry, Mario, it's Kevin. I mean, we've -- I think exactly like you're discussing. We've got the ability to price for the cost because the employers want this coverage. We've got the experience to underwrite this well. And it's that the costs have been rising rapidly with the -- some of the structural changes that are happening in the U.S. and so that will eventually level itself out, and we will be able to price for the cost that we're seeing there. So I think you've got that exactly right.

And our expectation is we'll be able to price right now for the 2026 experience that we expect to see. So that's our expectation. But we're watching closely what's going on with those structural changes in the U.S., which are driving that higher cost.

Mario Mendonca - TD Cowen - Analyst

Where I was going with this is, is there a potential other sort of shoe to drop in the form of a much smaller business in 2026 relative to 2025? Like that base, that install of business simply declines as your customers go to other providers or decide to self-insure. Is there some reason why that base could shrink materially in '26?

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

So no, we have -- we're very confident in our plans and how we're approaching the market. We have a great platform. We have a great distribution network, and we have strong customer relationships. We have historically had some of the most low loss ratios in the business, and we expect that to continue. We are going through this period of adjustment for sure, but we feel very well-positioned competitively, and we continue to expect to grow the business over time.

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

I would add to that, Mario, that others are seeing the same higher cost. And so it's not like we're negatively positioned for that. In fact, given our scale, we're positively positioned. So I think our strategic positioning would support growth in that sort of environment versus declines. We do have pricing discipline, which is serving us well because our loss ratios remain less than the industry, but the industry is experiencing the same higher costs and it's going to have to reflect that in pricing as well.

Mario Mendonca - TD Cowen - Analyst

So that's your real -- that's the real takeaway. I'm taking from what you're suggesting that strategically, competitively, Sun Life is not disadvantaged. It's just a matter of the entire industry repricing going into 2026.

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

Yes. I'd even say we're advantaged.

Operator

Darko Mihelic, RBC Capital Markets.

Darko Mihelic - RBC Capital Markets Inc - Analyst

Just to follow up on that line of questioning there. I just want to ensure one thing. Are we still talking about your targeted return of 7% in the stop-loss?

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

Yes. So if you look at our quarter results, our group benefits after-tax margin was at 6.9%, so slightly below our long-term target of 7% plus. We do price for a margin in the medical stop-loss business higher than what we're currently experiencing. And so we certainly expect that to move up over time. As Kevin noted, our loss ratios are 10 to 15 points better than others that disclose their loss ratios in the industry. So we're in a good position here, and we continue to work through this cycle.

Darko Mihelic - RBC Capital Markets Inc - Analyst

Okay. So it's a hardening market and your expectation would be that with the entire market hardening, that you should actually gain share in '26? Is that how -- at your targeted profit margin. Is that -- I just want to be very clear on that.

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

Darko, I'd say it a little bit differently. We're holding our pricing discipline, and that will -- it will a little bit depend on what others are doing, but others are seeing high loss ratios as well. So we expect them would -- they would also be reflecting that. So we'll see how that turns out, but we will hold our pricing discipline. But we are very good risk selectors as well, and we've added additional capabilities, which support us being -- getting the types of margins that we have been getting.

So we still see this as a really good business for us. We see -- we have a great management team there. And I think that over time, that we'll get back to being in a very strong competitive position. We'll see what others do when it comes to pricing as we go through the process for next year. But we are not giving up on our pricing discipline. And we certainly think that even given that, we'll keep our scale.

Darko Mihelic - RBC Capital Markets Inc - Analyst

Okay. That's helpful, thank you. And just a follow-up on the -- for the fourth-quarter in terms of the expectation -- I just wanted to make sure that I understood something. You had mentioned that the -- reserving this quarter for the stop-loss is based on 30% of claims experience. Is that different from the 50% reports that you get by this time of year?

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

Yes. So this is David again. So this is an accumulation product and we hold reserves for 26 months. And so how we assess our ultimate loss ratio pick, we'll see another 30% of claims come through in Q4 and typically another 30% in what would essentially be Q1 of next year, is how it will play out.

Operator

Gabriel Dechaine, National Bank Financial.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

I guess I got cut off -- line drop there last time around my second question, on the Dental business and the repricing outlook there. There's a couple -- it's not so straightforward in that if you need 10, 15, 20, whatever the number is, percentage pricing increases for your counterparties to accept those, they have to also accept an accelerated recognition of loss experience.

So I understand it's a three-year look back, maybe one or two year good years in the look back in there, so you want to have them emphasize the most recent experience, which hasn't been as favourable. I'm wondering how those discussions are progressing. If you can shed some light on how difficult of a challenge that is, if it is.

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

Yes. So this is David again. Thanks for the question. So we continue to work through it. And as Kevin noted, this is re-priceable business, and we ultimately expect repricing to catch up with the experience.

In Medicaid, the rates are reset annually and by the states. And they typically look back, as you said, through a period of time, can be more or less than one year, either directly with us, where we have those direct relationships or through health plans where we're subcontracting to those states. We can influence the rates. We provide a lot of data and insight, and our opinion.

And as you noted, it does include historical experience, but it also has to take into consideration a forward look for what utilization is going to be in the future. And that's where we're seeing some conservatism in the rate setting process. Some of it is related to the dampening effect of really the broader government pull back on spending in health care. And so people are taking a more conservative view of what that utilization might be. But what we're actually experiencing is a higher rate of utilization in the claims experience from what they're projecting and actually what we were seeing even pre-pandemic when rates were more normalized.

So we do expect it to catch up and return, but it is taking time and we continue to influence the rate setting process as we educate on what we're seeing through experience coming through.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

So there's a disconnect -- Yes, sorry, go ahead.

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

I was just going to -- sorry, I thought -- ask your last question, and then I'm going to just add to it a little bit.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

What is my last question. It's unrelated. So stick with dental, I guess.

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

Yes. Well, I was just going to say, Gabe, that it's -- I'm glad you asked the question again about the Dental business, and we've had a lot of questions about stop-loss. And they are going through a structural change to some of these things in the U.S. This is re-priceable business. We will -- we've got a strong management team and capabilities and scale there.

David comes from an IT and operations background, and he's been in the group benefits business his whole career. He's ran our employee benefits and also our -- he ran our Dental business. He ran IT there. I have a lot of confidence that we're going to work our way through these issues. And I think you heard that on the call.

If you look at the quarter, the diversified nature of our business model and the growth that we saw in Asia, in Canada and the strong asset management results, we're in line with our medium-term objectives, right? So I think that -- I have a lot of confidence that Asia will -- or Asia, that Asia and Canada will continue to do well, but the U.S. will turn this around, and that's going to be part of our growth story as we go forward, but it's going to be -- it's a difficult time, but they'll work their way through it, and they're doing all the right things to do that.

But as a company, if you look at the diversified nature of our business, we -- I still am committed, even with the U.S. being a little slower, to achieving our medium-term objectives, and you saw that in the quarter. So I think it's a very strong quarter in Asia and Canada under Manjit and Jess's leadership, I think we're poised for growth in the asset management space. And we're going to work through these issues in the U.S., and we're going to work through it together. And we're going to work through it with the same type of discipline that we provide.

But we have good people there, and we have good scale and we have good business capabilities. So it's -- when I step back, I see us really positioned quite well through the quarter, and that it was a strong quarter.

Gabriel Dechaine - *National Bank Financial Research - Analyst*

No, I'm not disputing that. It's -- I think a challenge, you have an 18%-plus ROE or something like that. So it's just -- we're learning as we go a little bit and trying to get a sense of the moving pieces and what sort of timing and we should expect for stuff to stabilize, I suppose.

But the -- just to clarify Tim's comment about the Q4 stop-loss outlook, I believe. You -- just to dumb it down, you've adjusted your reserves to accelerate recognition of these -- the trends in the 30% of the claims volume you've seen on the Jan 1 cohort, such that if you have the same experience in Q4 as they did in Q1, same claims or whatever, you would have a lower experience loss, but then you would probably have some other item -- line item elsewhere that would be lower, I assume, I don't know, maybe we can take that offline?

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

Yes. So it's David. I'll just quickly comment that, yes, we have updated our best estimate loss ratio pick for the entire 1/1/25 cohort, and that reflects what we currently expect in Q4, but it can change based on the claims that show up in the quarter and -- but at the moment, that is how we are viewing it.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets Inc - Analyst*

Great. I guess the question that we're all trying to get at on U.S. Dental is that USD100 million profit target. Are you confident that can be achieved in 2026 or too early to know because of the uncertainty in terms of these utilization rates and uncertainty in pricing?

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

Yes. So I think we've signaled that we are continuing to focus on pricing, and we're making progress. We are taking a very careful approach to it and working closely with the states and the health plans we work with. But it's going to be slow progress over the course of 2026, and

we do need to see some of the more recent utilization trends being better reflected in our pricing as we move forward, and that's something that we're working through.

Paul Holden - *CIBC World Markets Inc - Analyst*

Okay. So \$100 million in '26 might be too much to ask at this point? That's what I—m going to take away. Okay. That's it for me. Thank you

Operator

Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yes. A question just with respect to other fee income, especially in Canada, up nicely year-over-year and quarter-over-quarter, probably up better than the asset growth rate. Is there anything else in that number that could be driving that? And how sustainable is it going forward?

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

Yes. Tom, this is Jessica. Yes. No, I think there are two pieces. I think one is that, indeed, our Asset Management and Wealth is quite strong.

If you look at our quarter results, it was up 13%. If you look at the underlying growth, both on the insurance investment, our fee income is underlying 7% growth. So our AUMA grew up by 11%, so that definitely helps a lot. And then I think our group business on the fee side has also increased. So you see how group premiums actually increased by 6%.

So as Kevin was saying, I think both in Canada, the strong underlying growth, and we continue to do well, yeah.

Tom MacKinnon - *BMO Capital Markets - Analyst*

So that kind of trend should continue, assuming asset -- assuming the markets behave? But I guess how much of that is really driven by ASO fees, which are probably just more a function of net premium growth in group?

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

Yes. I think the well part, we expect to continue to do the momentum, you see that actually, if you take out DBS, which is more lumpy and is a softer market this year, we had net inflows in Canada of \$1.5 billion, which is almost twice the net inflows from last year. So I think you'll continue to see strong growth in our Asset Management and Wealth AUM. And if you look at year-to-date, our underlying net income in Canada is at 8% up, which is I think well above our medium-term target of 6%. So we feel very confident of our 6% growth.

Operator

This concludes the question-and-answer session. I'd like to turn the call back over to Natalie Brady for closing remarks.

Natalie Brady - Sun Life Financial Inc - Senior Vice President of Capital Management & 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.

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