FACTSET:callstreet
corrected transcript

PARTICIPANTS

Corporate Participants

Leigh Chalmers – Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.
Dean A. Connor – President, Chief Executive Officer & Director, Sun Life Financial, Inc.
Kevin D. Strain – Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.
Michael W. Roberge – Chief Executive Officer and President, MFS Investment Management, Sun Life Financial, Inc.
Daniel Richard Fishbein – President-Sun Life Financial U.S., Sun Life Financial, Inc.
Stephen Clarkson Peacher – President-SLC Management, Sun Life Financial, Inc.
Léo M. Grépin – President-Sun Life Asia, Sun Life Financial, Inc.
Kevin Morrissey – Senior Vice President & Chief Actuary, Sun Life Financial, Inc.
Jacques Goulet – President-Sun Life Financial Canada, Sun Life Financial, Inc.

Other Participants

Humphrey Hung Fai Lee – Analyst, Dowling & Partners Securities LLC
John Charles Robert Aiken – Analyst, Barclays Capital Canada, Inc.
David Motemaden – Analyst, Evercore ISI
Scott Chan – Analyst, Canaccord Genuity Corp.
Tom MacKinnon – Analyst, BMO Capital Markets Corp. (Canada)
Meny Grauman – Analyst, Scotiabank
Gabriel Dechaine – Analyst, National Bank Financial, Inc.
Paul Holden – Analyst, CIBC World Markets, Inc.
Doug Young – Analyst, Desjardins Capital Markets
Nigel D'Souza – Analyst, Veritas Investment Research Corp.
Darko Mihelic – Analyst, RBC Dominion Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies, and gentlemen. My name is Blue, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q4 2020 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

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

Leigh Chalmers, Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.

Thank you, Blue, and good morning, everyone. Welcome to Sun Life Financials' earnings conference call for the fourth quarter of 2020. 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 presentation with an overview of our fourth quarter results by Dean Connor, President and Chief Executive Officer of Sun Life Financial. Following Dean's remarks, Kevin Strain, 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 will also be available to answer your question on today's call.

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 will turn things over to Dean.

Dean A. Connor, President, Chief Executive Officer & Director, Sun Life Financial, Inc.

Thanks, Leigh, and good morning, everyone. 2020 presented a new challenge to the world in the form of COVID-19 and shone a bright light on existing challenges, particularly systemic racism, and climate change.

At Sun Life, these served as a catalyst to accelerate change. We had already made digital a key focus. The pandemic meant we needed to accelerate our digital program even faster to serve clients virtually when face-to-face became impossible.

The horrific murder of George Floyd galvanized action to drive lasting change and eliminate systemic racism. At Sun Life, we started a series of dialogues and training around racism. We set a goal to have 25% of executive roles staffed by underrepresented ethnicities in North America by 2025, including goals for Black, Indigenous and People of Color, and to achieve gender parity in these executive roles.

Climate change is one of the defining issues of our time. In our annual MD&A, we have included our first climate change disclosures under the Financial Stability Board's Task Force on Climate-related Financial Disclosures or TCFD.

At the end of March, we will publish our 2020 Sustainability Report that will provide more detail on our objectives and ways where our expertise can have the most positive social and environmental impact.

Turning to Slide 4, reported net income of CAD 744 million grew 3% over the prior year, while underlying net income grew by 9% to CAD 862 million. Underlying earnings per share grew 10% over the same period and we generated a strong underlying return on equity of 15.4% for the quarter. Our capital and cash positions remain healthy and along with a low leverage ratio provide flexibility and opportunity for further capital deployment.

MFS ended the year with US$610 billion in assets under management, driven by asset appreciation and positive net flows, demonstrating the continued strength of MFS' performance and brand. SLC, our alternatives asset management business grew third-party AUM to CAD 106 billion with strong investment performance and positive net flows. And we reached CAD 33 billion in AUM at Sun Life Global Investments in Canada, with strong investment performance for clients and positive net flows.

Insurance sales of CAD 1.4 billion in the quarter were up 2% over last year, with 11% growth in Asia and 4% growth in the US on a constant currency basis. In Vietnam, we entered into a 15-year bancassurance partnership with Asia Commercial Joint Stock Bank or ACB, which started last month. This partnership complements the exclusive Bank Partnership with TP Bank in Vietnam that started a year ago January, and in its first year, nearly doubled our Vietnam sales compared to 2019. Throughout the year, we also expanded our agency distribution network across Asia, where we now have 138,000 advisors in the region, up 12% over 2019.

 Copyright © 2001-2021 CallStreet

Turning to Slide 5. As you know, we are on the journey of accelerating everything digital, driven by our purpose of helping clients achieve lifetime financial security and living healthier lives. We've made big strides using digital data and analytics to change and improve the client experience. And here are just a few examples.

In Canada, our digital coach Ella helped clients save an additional CAD 700 million in wealth deposits in 2020, up 69% from 2019. Ella also helped clients to close the coverage gap, contributing to CAD 1 billion of face value in insurance sales, up 83% over 2019.

We made client interactions more frictionless, digitally processing 90% of Canadian retail insurance applications, and 79% of retail wealth transactions. Our artificial intelligence and predictive modeling accelerated and improved the individual insurance application process with 71% of policies underwritten without the need for lab tests, an increase of 26% over prior year.

In the US, we've just launched a fully integrated disability and absence management technology platform that simplifies the experience for clients. As legislation continues to evolve, absence management is becoming increasingly complicated for employers particularly those who operate in multiple states. To date, we have onboarded nearly 10,000 employer clients to our new state-of-the-art claim system that will enable us to coordinate absences as a single event across all benefits.

In the fourth quarter, we launched a digital non face-to-face sales platform in Malaysia and we now have virtual sales experiences in each of our markets across Asia. And finally, this year, we introduced digital enterprise across the company, bringing together the business and IT to help us deliver exceptional digital experiences and client outcomes. Digital enterprise is a new way of working for us. It's how we will ensure our clients can have a distinctive digital experience integrated across life, health and wealth.

Turning to Slide 6, I'll touch on some highlights from our full year 2020 results. Despite the challenges of the pandemic, we benefited from our chosen business mix and strong execution, and this also came through in the returns we delivered to shareholders, with five-year total shareholder return of 9.6%, compounded annually top quartile among 20 global competitors.

Reported net income for the year of CAD 2.4 billion was down 8% from 2019, mostly as a result of equity market volatility and fair value of real estate investments. Underlying net income of CAD 3.2 billion grew 5% over 2019, reflecting strong business growth and a 13% increase in expected profit, strong investing activity due to market dislocations early in the pandemic and favorable morbidity, which includes the impact of lower benefits usage brought about by the pandemic.

On the other hand, we also saw elevated mortality experience in the year, mostly related to clients who sadly succumbed to COVID-19. Credit experience in the year was also unfavorable, driven mostly by downgrades in the second quarter.

Full year insurance sales decreased by 1%, primarily reflecting lower large case sales and lower market activity in Canada's Group Benefits business, while insurance sales were up for the year in both the US and Asia, including our international high net worth business, which doubled its sales from the prior year.

Wealth and Asset Management sales grew 39% to CAD 221 billion with strength across all our businesses. We also reached a milestone of CAD 1.25 trillion of AUM. MFS finished the year with four quarters of net inflows, totaling US$13.1 billion for the year and continued to deliver strong investment performance for clients, with 97%, 95% and 94% of US retail assets ranked in the top half of their Morningstar categories, based on 5, 10 and 3 year performance, respectively.

SLC Management, our alternatives asset manager reached an inflection point with underlying net income of CAD 94 million, reflecting strong contributions from recently acquired businesses including BentallGreenOak and InfraRed Capital. We also completed our acquisition of a majority stake in Crescent Capital Group on January 5th of this year, broadening the solutions we bring to institutional clients, and bringing SLC's third-party AUM to CAD 145 billion on a pro forma basis.

On Slide 7, you'll see how we were there for our clients in a tough year. We delivered nearly CAD 200 million of claims payments to the families of clients who succumbed to COVID-19. We extended grace periods for our clients to make premium payments, provided credits to employers for the lower benefits usage we saw during the pandemic. We enrolled over a 0.5 million Canadians in a new virtual health care service through Luminol Health and Dialogue.

Our client index score measures how our clients rate us on proactive contact, ease of doing business and problem resolution. Our score increased again this year, increased by 3 percentage points over last year with increases across all categories indicating that our obsession with the client experience is showing up in results for clients.

When I stand back from this, I'm incredibly proud of all that we accomplished in 2020. It was a hard year for people, for communities, for countries around the world, yet it was the year that showcased the tremendous determination of Sun Life employees and advisors coming together to stand behind our purpose.

Now we're not out of the woods yet on the pandemic. And yet there's every reason for optimism as vaccines are rolled out around the world. Sun Life is well positioned for 2021 and beyond with the strength of our people and culture, diversified and balanced business model, strong capital, and our ambition to be one of the best in the world at what we do.

2021 will also be a year of leadership change for Sun Life. In December, we announced that Kevin Strain will succeed me as the President and CEO when I retire in August. I know that Sun Life will remain in great hands under Kevin's leadership. He's a strong leader, with great knowledge and passion for our business and I'll have more to say about that on the Q2 call in August.

And now, over to you Kevin to take us through the fourth quarter results.

Kevin D. Strain, Chief Financial Officer & Executive Vice President, Sun Life Financial, Inc.

Thank you, Dean, and I appreciate the kind words. I'm excited and humbled to become the next President and CEO of Sun Life. The client is at the center of everything we do in every one of our markets with a focus on helping clients achieve lifetime financial security and live healthier lives.

And as Dean outlined, our focus on the client has never been more evident and more important than this past year. We've heard countless stories from how Sun Life has been there for our clients during the moments they needed us the most. This is what inspires me and motivates me and Sun Lifers all around the world.

I'm looking forward to leading Sun Life and more importantly continuing to work with our executive team, Board of Directors, employees, advisors, and partners to build on Sun Life's success well into the future.

With that, let's turn to our Q4 results. Slide 9 provides an overview of the results, which continue to demonstrate strong execution amid the challenging environment caused by COVID-19. Our reported net income for the quarter was CAD 744 million, a 3% increase over the same period last year, driven by strong underlying net income partially offset by assumption changes and management actions. Reported net income also included higher fair value adjustments on MFS share-based awards, reflecting strong performance in the year.

Market related impacts in the quarter were positive CAD 20 million after tax mostly driven by equity market growth, which was partially offset by the impact of narrowing credit spreads and changes in the fair value of investment properties.

Underlying net income was up 9%, at CAD 862 million driven by business growth across all four pillars. Favorable morbidity experience in Canada Group Benefits and in US stop-loss businesses, partially offset by lower investing activity in Canada, as a result of asset repositioning and an AFS impairment in Asia.

Credit experience in the quarter was a positive CAD 18 million, a good result. Underlying EPS for the quarter was a CAD 1.47, up 10% compared to the same period a year ago, while underlying ROE increased by 40 basis points to 15.4% above our medium-term objectives of 12% to 14%.

Assets under management increased to CAD 1.25 trillion, an increase of 13% year-over-year driven by positive market movements, strong net inflows throughout the year and CAD 16 billion of acquired AUM on the closing of InfraRed in SLC Management.

Book value per share is up 6% compared to Q4 2019, and slightly lower than Q3, as a result of foreign currency translation and other comprehensive income on a stronger Canadian dollar in the quarter.

Our LICAT capital remains strong with ratios of 147% at SLF and 127% at SLA. The SLF ratio increased by 3% quarter-over-quarter, largely due to the CAD 750 million subordinated debt offering completed on October the 1st.

SLA's ratio was in line with Q3 at 127%, and reflects the capital put into SLA from SLF to fund the ACB bancassurance agreement in Vietnam. The debt offering increased our financial leverage ratio to 23.5%, below our target ratio of 25%. We end the quarter with cash at the holding company of CAD 3.1 billion.

After the close of Crescent acquisition in January and our upcoming debt redemption of CAD 350 million later this month, pro forma cash at the holding company is CAD 2.4 billion and our pro forma leverage ratio will be 22.6%.

Slide 10 shows business group performance on both our reported and underlying net income basis. Canada's reported net income was 7% lower versus Q4 2019 driven by a similar reduction in underlying net income, which reflected investing activity losses due to asset repositioning in the quarter and unfavorable expense and mortality experience.

This was partially offset by improved morbidity experience in Group Benefits on lower long-term disability incidence and the impact of re-pricing, as well as expected profit growth across all businesses.

In the US, we saw a year-over-year decline of 33% in reported net income, reflecting the ACMA impact of the new reinsurance agreement in our In-Force Management business.

On an underlying basis, net income increased 8% as our stop-loss business continued to see favorable morbidity experience. We also benefited from higher net investment returns on surplus assets and business growth, which was partially offset by less favorable credit experience and unfavorable expense experience.

Mortality experience in the US was unfavorable in the fourth quarter primarily from higher deaths in our Group Benefits business related to COVID-19. Our asset management businesses saw an increase in both reported and underlying net income compared to the prior year, up 17% and 19% respectively. Asset Management earnings benefited from higher average net assets in MFS, as well as an increase of CAD 19 million in SLC Management underlying net income to CAD 34 million on strong contributions from BGO and InfraRed.

Asia's reported net income was broadly in line with Q4 2019, while underlying net income was down 19%, mostly as a result of CAD 20 million AFS impairment relating to an investment managed by our joint venture in India. This was partially offset by higher new business gains in International Hubs and favorable expense experience.

In our Corporate segment, which includes the UK business, both reported net income and underlying net income increased year-over-year. The improvement under both bases was driven by higher earnings in our UK and other runoff businesses and lower project spend in Corporate support compared to 2019.

Slide 11 provides an overview of our sources of earnings. Expected profit grew 16%, driven by growth across all our businesses. In particular we saw strong growth in Canada and in Asset Management, which grew by 16% and 22% respectively.

US expected profit grew 7%, driven by growth in the business throughout the year. Asia expected profit grew at a more modest 5%, as growth in the business of 9% was partially offset by higher planned regional office expenses.

New business gains improved by CAD 14 million over the prior year, mostly driven by higher sales in Hong Kong. Experience losses of CAD 136 million pre-tax in the quarter included market related impacts from narrowing credit spreads and the impact of the fair value of investment properties partially offset by higher equity markets.

Expense experience was unfavorable in the fourth quarter, reflecting investments in digital and in GB operations in Canada, sales commissions and incentive compensation in the US and initiative spend in Corporate.

Unfavorable policyholder behavior included small amounts in various products across the company. The fourth quarter experience also included unfavorable mortality, reflecting a small number of large claims in Canada, and COVID-19 related claims in the US Group Benefits business, mostly offset by favorable mortality impacts in the UK, which is reported in our Corporate segment.

Morbidity was favorable on lower incidence in Canada and the US, and credit experience was also favorable in the quarter. The CAD 60 million pre-tax of ACMA in the quarter was predominately in the US. Earnings on surplus were flat year-over-year as lower AFS gains were offset by fair value gains on investment properties, and surplus and gains on seed investments.

Slide 12 shows fourth quarter insurance and sales by business. We continue to benefit from our investment in digital capabilities as we grew total company insurance sales by 2% year-over-year despite a challenging backdrop.

Insurance sales grew in the US and in Asia, up 4% and 11% respectively on a constant currency basis. US sales were driven by growth in both employee benefits and stop-loss, while Asia had sales growth across most markets.

The Philippines continues to recover from the impact of COVID-19 restrictions with a 46% growth in sales compared to Q3, though still lower than the prior year. Canada insurance sales were down 18% from the prior year due to lower Group Benefit sales as fewer sales have come to market.

Wealth sales increased 50% compared to Q4 2019, with 19% growth in Asset Management from higher sales in both MFS and SLC.

During the quarter, MFS had positive net flows of US$1.5 billion, while SLC Management had positive net flows of CAD 900 million.

Asia wealth sales also increased, up 61% year-over-year from fixed income sales in India, higher money market sales in the Philippines, and growth in the Hong Kong pension business.

Canada wealth sales are down 18% from the prior year, reflecting lower defined benefit solution sales in the quarter, partially offset by higher mutual fund sales in our individual wealth business.

Value of new business was CAD 293 million in Q4, an improvement over the prior quarter, but down 13% year-over-year driven by lower sales volumes in Canada Group Benefits and Group Retirement Services businesses. Mix of business in Asia and the impact of lower interest rates also impacted VNB.

Turning to Slide 13. Our year-to-date operating expenses increased 4% on a constant currency basis over the prior year, while controllable expenses were up a modest 2%. Removing the impact of acquisitions, which added new run rate expenses as well as higher contractual volumes from the sales compensations and commissions, full year operating expenses were up only 2% from the prior year on a constant currency basis.

We continue to focus on expense discipline across our businesses, while benefiting from lower discretionary spend such as travel and conferences related costs due to COVID-19. This has allowed us to accelerate our investment in digital capabilities across the company.

During the quarter, we recorded restructuring charge of approximately CAD 20 million after tax and corporate, related to simplifying our organizational structure and driving efficiencies. We anticipate annual run rate savings from these initiatives to be roughly CAD 25 million pre-tax, which we expect to reinvest in the business.

We've also been deploying a strategy for our workforce and redefining the role of the office in a post-COVID environment. Starting this quarter, we began reducing and consolidating our real estate footprint across Canada and the US, and expect to take a further charge of CAD 40 million to CAD 60 million after tax in Q1 to reflect vacating and reconfiguration of existing workplaces, which we anticipate will generate gross annualized savings of roughly CAD 20 million.

Turning to Slide 14. We show our 2020 full year progress against our medium-term financial objectives, as well as our five-year review. Underlying EPS grew 6% in 2020. On a five-year basis, underlying EPS has grown at a rate of 8% per annum, meeting our growth objective of 8% to 10%. Underlying ROE was 14.4% in 2020 and averaged 13.5% over the past five years. And finally, the dividend ratio for the year has remained just inside of our target range.

Our client strategy has been the center of our focus with all four pillars growing underlying net income in 2020. Throughout the year, we deployed capital for organic investments, including investments made in advancing our digital capabilities. We also completed the acquisition of InfraRed, entered into strategic partnerships including two new bancassurance arrangements in Vietnam, and shortly after the end of 2020, we closed the Crescent Capital acquisition at SLC Management.

As a reminder, we're looking forward to hosting you virtually at our SLC Management Investor Day on March 18th.

In closing, our focus on the client, investments in digital, and strong balance sheet have helped us to perform well through the pandemic, and we remain confident about our financial position and our operating model. 2021 should see the world emerging from the pandemic conditions and we are starting the year from a position of capital strength and a continuation of our growth agenda.

With that, I'll turn the call back to Leigh for the Q&A portion of the call.

Leigh Chalmers, Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.

Thank you, Kevin. To help ensure that all our participants have an opportunity to ask questions on today's call, I would ask each of you to please limit yourself to one or two questions and then re-queue with any additional questions.

With that, I will now ask Blue to please poll the participants for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Humphrey Lee from Dowling & Partners. Your line is now open.

<Q – Humphrey Lee – Dowling & Partners Securities LLC>: Good morning and thank you for taking my questions. My first question is for Mike regarding MFS – the margin of 41% was clearly very strong and I think last quarter you talked about the margin kind of expectation to be in the mid to high 30% range in normal markets.

But based on where we are today and assuming a co-operative market, is there any reason why we shouldn't expect margin to stay at kind of current level or maybe even a little stronger as your net asset growth.

<A – Mike Roberge – Sun Life Financial, Inc.>: Good morning, Humphrey. It's Mike Roberge. As we've indicated historically, we think through this cycle and in normal conditions the margin should be in the mid to high 30s. Last year, really off the market bottom with the S&P up over 75%, pretty good growth in the third quarter of markets that you're going to be at the higher end of that, when the markets are sort of maybe a little bit more extended relative to what we see normally. That's true on the other side of it, if we get a correction of 20%, you may see it down below that guidance that we've provided as well.

So, we continue to be comfortable that through the cycle, we're going to be in that 30% to 35%. If the margins stay strong, we're going to be at the higher end of that. On weaker margins, we'll be at the lower end of that. And beyond that I wouldn't give any more guidance.

<Q – Humphrey Lee – Dowling & Partners Securities LLC>: Okay. Thank you. And then in US Group Benefits, can you talk about the various impacts that you've seen across the product lines from COVID-19. It seems like you are one of the outliers in the marketplace in terms of still seeing strong margins kind of through -- for the year at 8%. I know there are a lot of -- still a lot of uncertainty, but can you just talk about some of the moving pieces in 2020 and how you think about that going into 2021?

<A – Dan Fishbein – Sun Life Financial, Inc.>: Sure. Good morning, Humphrey. This is Dan Fishbein. Yeah, let me talk first about mortality and morbidity impacts. We've certainly seen mortality, especially in our group life business. There also has been mortality in our closed block individual life business. But that business has a different impact on the bottom-line, because it's of the older ages in that group it's already very well reserved, plus we have reinsurance and a significant portion of that is a par block. But in our group life business, we have seen mortality both in the fourth quarter and throughout the year.

From a morbidity perspective, we have not seen significant impacts in the LTD business. We have seen some impacts on short-term disability, there certainly is more frequency of short-term disability claims caused by COVID. As you noted of course stop-loss is an important part of our business mix, and very strong results in stop-loss have helped to mitigate some of the negative impacts such as mortality.

The other aspect to this is sales. Sales have remained strong for us. They were up year-over-year and strong in all of our businesses. And that is somewhat unique in the US group industry over the past year. And we attribute that to our very strong digital capabilities and our experience working virtually. And that has distinguished us somewhat in the market. So, we've been able to grow market share during this period of time.

<Q – Humphrey Lee – Dowling & Partners Securities LLC>: Got it. Thank you.

Copyright © 2001-2021 CallStreet

FACTSET: callstreet

corrected transcript

Operator: Your next question comes from John Aiken from Barclays. Your line is now open.

<Q – John Aiken – Barclays Capital Canada, Inc.>: Good morning. The success that you've had growing on SLC Management is obviously quite apparent with the growth and earnings contribution. But again, on a quarterly basis it's been a little bit volatile. I was wondering if you could give us a little bit of colour in terms of how the acquisitions have been performing against expectations specifically InfraRed and BentallGreenOak please?

<A – Steve Peacher – Sun Life Financial, Inc.>: Hi, John. It's Steve Peacher, and I can answer that. Just to comment on this quarter – obviously CAD 34 million of underlying net income is a strong quarter for us. That was bolstered a bit by some strong fundraising at BentallGreenOak in the fourth quarter, which led to something called catch-up fees, which are common in private equity style real estate funds when you have final closings. And that helped us in the quarter.

You're going to see those from time to time in certain quarters and these are going to be episodic and a bit lumpy, but you will potentially see catch-up fees as some of our underlying businesses close on, have final closings are on a fund or you'll see performance fees as those come due. So that'll add up every now and then we're going to get the benefit of that, it won't be every quarter.

If I look at the different businesses obviously InfraRed closed this part in the summer of 2020, the GreenOak deal closed a year before that, the summer of 2019. We feel like everything is on plan. All of our businesses are growing.

In terms of sale, new commitments we raised CAD 3.5 billion across the platform in the fourth quarter of new commitments. And if you look at where we're winning business it's across fixed income, private credit, real estate, infrastructure, and of course Crescent didn't close until January, but they're off to a bang in January with the first -- with the close on their latest direct lending fund as well as pricing a new CLO. So, it's always a competitive market but we feel like each business is performing well.

<Q – John Aiken – Barclays Capital Canada, Inc.>: Thanks a lot, Steve. I'll requeue.

Operator: Your next question comes from the line of David Motemaden from Evercore. Your line is now open.

<Q – David Motemaden – Evercore ISI>: Hi. Thanks. Good morning. I guess just a question for Kevin. And Dean, congrats on the retirement, I guess a bit early. But for Kevin, I guess do you foresee any big changes to the strategy and also specifically around capital allocation once you take the reins during the summer.

<A – Kevin Strain – Sun Life Financial, Inc.>: I've worked with Dean closely on the strategy since he became the CEO. Actually, I was one of the team members below the Executive Team at that point in time that had worked on the strategy with him.

And now as the CFO for three and a half years, I feel like I've had a big input on the strategy. I do see us really emphasizing digital. We rolled out a project called Digital Enterprise, which was really about how working more agile, working more like a digital company, bringing IT and the business closer together. But also on the what side of doing more in digital and continuing to be aggressive.

You can see just the impacts on digital through COVID and how quickly we pivoted, so we'll continue to emphasize that. Sustainability, I think is a big topic for every company now, including diversity inclusion, and Dean started his comments at the start of the call on sustainability and ESG, and I think that's going to be an important topic.

FACTSET: callstreet
corrected transcript

Obviously, my time in Asia had a big influence on me, and Asia has been a big priority for us in terms of capital deployment and I see that continuing to happen. So, it's – I've had the great honor to work really closely with Dean on the strategy. I feel like I've had an input on the strategy, and that we're going to build on that success and the strategy we put in place.

<Q – David Motemaden – Evercore ISI>: Great. And then just a quick follow-up on that. Do you see yourself in Asia? Do you see you guys entering into new regions, new countries there or do you foresee it just being more of a kind of bulking-up where you currently have a footprint?

<A – Kevin Strain – Sun Life Financial, Inc.>: I think we've got a great footprint. We're in the two biggest economies and the two biggest markets with China and India. We've got a great business in Hong Kong. We've got a really good footprint in the ASEAN region. We're building out high net worth. So, my focus would be the same as it's been the last few years, is building scale.

So, you saw us do two transactions on the bancassurance side in Vietnam and I was quite involved in those as was Dean and Léo, of course, and Larry Madge, the CEO there. But those types of transactions where we're building distribution capability, we're building partnerships and we're building in a market that we think has huge potential. I think those are good examples of the types of things that will be our focus.

<Q – David Motemaden – Evercore ISI>: Okay. That makes sense. And then just another question, Kevin, just on free cash flow generation and sort of an update there. I think in the past, you've said in CAD 800 million range per year, earnings have clearly grown I think and since you last gave that update. So, how are you thinking about cash flow these days, in terms of cash flow above the dividend that you guys are generating? And I guess also just wondering how to think about that going forward. Is that something you see just growing in line with IFRS earnings as we sort of go forward?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. We're roughly in that range. And it's been as you know the capital drives off of reported income, which has been stressed by the economic conditions. So, I would say that roughly in that same range, we're also investing in new businesses and those types of things. So, I would have that number in mind. As we get closer to IFRS 17, let's spend some more time on how to think about the business post-IFRS 17.

<Q – David Motemaden – Evercore ISI>: Okay, great. Thank you.

Operator: Your next question comes from the line of Scott Chan from Canaccord Genuity. Your line is now open.

<Q – Scott Chan – Canaccord Genuity Corp.>: Hi, good morning. Kevin, you just recently talked about building out the high net worth in Asia and maybe just talk about International Hubs which kind of supported insurance sales in the quarter. Not talked about too much in the past, but just maybe broadly just on the progression of that new segment and perhaps an outlook that you see on insurance and wealth side over the next few years?

<A – Dean Connor – Sun Life Financial, Inc.>: Scott, it's Dean. I think we'll ask Léo Grépin to take that question.

<A – Léo Grépin – Sun Life Financial, Inc.>: Good morning, Scott. It's Léo here. I can go through a little bit of where we're at with International Hubs. And as you said, it was another strong quarter for that business segment. The results are the outcome of our strategy with that business, so over the last two years. We've obviously been in the international offshore business for a long time.

But over the last three years, we made an explicit decision to make high net worth in Asia a strategic focus for us. And one of the early parts of that strategy was to bring the international business into Asia.

Subsequently, we ended up bringing together the international business with our Hong Kong business under the International Hubs banner. And what that's allowed us to do is to really start to operate these two businesses much more closely bringing together our broker relationships across the region. And so, you can imagine a much better alignment of relationships, much better orchestration, much better service for these brokers.

It's also allowed us to leverage our capabilities in terms of product developments. We've made significant investments in digital and technology capabilities as well, which have also improved our operations and ease of doing business for brokers. And just generally positioned us to more strongly -- with more significant scale for example from a balance sheet and reinsurance standpoint.

And so, what you're seeing in terms of results is really the byproduct of that focus in a business that requires a lot of expertise and where there are barriers to entry. So, we're benefiting from that right now.

Now in terms of what's happening with COVID-19, there is some uncertainty because this is a business that has a long lead time. It takes 6 months to 12 months to go through an onboarding process with the clients. Up until now, we have strongly benefited from the pipeline that we started to build a year ago. And so, we've seen that momentum. Q4 sales continued to be strong. But I would say there has been some softening of the pipeline given travel restrictions.

<Q – Scott Chan – Canaccord Genuity Corp.>: And just a quick follow-up you talked about expansion into the Singapore market. Is there any other expansion opportunities into other regions? And maybe you can comment on Singapore specifically.

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah. With our presence in Bermuda, now our Singapore presence and our Hong Kong presence, we believe we've really covered the big international financial centers of Asia. So, I think in terms of footprint we feel like we have all of the geographies that we need.

Specifically, in terms of Singapore, we acquired our license last year – in the middle of last year and we've been preparing for the launch of the office since then it's been going well. We're establishing a network of distributors in Singapore and that's proceeding apace. And then we're also preparing for regulatory approval of our first product in Singapore. And so all that's on schedule and we expect to start this business as soon as we get the required regulatory approvals on our product.

<Q – Scott Chan – Canaccord Genuity Corp.>: Great. Thank you very much.

Operator: Your next question comes from the line of Tom MacKinnon from BMO Capital. Your line is now open.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Yeah. Thanks very much. Good morning. Two questions, the first is with respect to investment experienced gains. You mentioned there was some asset repositioning in the quarter, so I guess that meant you may have sourced assets, but you didn't have any kind of significant yield enhancement activities. As a result of this asset repositioning, what does that imply for the outlook for investment experience gains going forward?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah, Tom. It's Kevin. Most of that was in Canada and was sort of a reloading of the balance sheet. You would have seen that we took advantage of the strong balance sheet early in the COVID and ran some pretty strong gains. And then in the fourth quarter we -- as spreads came in, we saw a chance to sort of reload the balance sheet and sort of prepare us for -- it puts us in a good position for next year.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. So, is there any kind of metric for a run rate that we could look at because this is sort of bounced all over the place in this quarter, CAD 25 million a quarter or something. I mean I'm trying to give us – do you have any indication as to how we should be looking at that going forward?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. We've given a run rate for investing activity in the past of – in the neighborhood of CAD 10 million to CAD 20 million after tax and for AFS gains CAD 30 million.
I would say that that's still roughly in line with where we'd expect to be, CAD 30 million after tax for AFS.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. And with the CAD 30 million after AFS gains are not in that...

<A – Kevin Strain – Sun Life Financial, Inc.>: No, that's not in the investing activity. I'm just kind of answering both because they kind of relate to each other and sort of the balance sheet strength.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay, that's great. And the second question has to do with the International Hubs, and I know you made a decision earlier in 2020 to move your Hong Kong business in there. And it sounds like even though Hong Kong used to be part of Asia, but now it's part of your International Hubs business.

But I think that was an effort to build out more high net worth business in Hong Kong. And correct me if I'm wrong. And then when I think of high net-worth business I think of like a pretty big face amount policy. And I think about pretty big face amount policies, I think it's paramedical testing. And when I think of paramedical testing, I think that's pretty tough to do in a COVID-19 environment, especially in Hong Kong where it's lockdown.

So, are the sales you're getting in this International Hub in Hong Kong, are they largely related to a pipeline? And you can talk about what's happening with respect to these big high net worth policies in Hong Kong, which would probably need some paramedical testing and how that's looking in light of COVID-19?

<A – Dean Connor – Sun Life Financial, Inc.>: Tom, it's Dean. Léo is going to take that one. And Léo, I'd suggest as you do also comment on the local Hong Kong business because it's a significant business. And in part of those results and an important contributor to our growth.

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah. Thanks, Dean. Tom, good morning. So, as I mentioned a little bit earlier on International Hubs, it is a business that is complicated, that has a long lead time, right. And we have kind of 6 months to 12 months pipeline for that business. And so, up until now, we have benefited from business that started pre-COVID-19 or in the early days where travel was still possible. We're now reaching the end of that pipeline and the brokers are talking to us and sharing with us that there is a softening of the pipeline.

However, there is a couple of mitigating factors to that. The first one is that, if you look at the International Hub business overall, it's got our Bermuda business, our Singapore presence and Hong Kong itself. You have high net worth; you have high net worth clients in Singapore and in Hong Kong that are offshore clients.

And so, there is potential for sales of people who are currently living in those geographies and who are able to do medical exams without traveling. So, we are benefiting from that still. And I think that will continue.

The brokers that we're talking to are proving very resourceful in tapping into their existing client base for up-sell and cross-sell and reactivating dormant pipelines of clients that are geographically able to go through the process.

So, they are working on the pipeline, but we think new client's pipelines are going to be more difficult in 2021, if travel restrictions continue.

<A – Kevin Strain – Sun Life Financial, Inc.>: It's Kevin. I just might add that just for clarity. So, the International Hubs business is made up of what we used to have in Hong Kong, which is our agency business, which has performed quite well, and we pivoted to digital quite quickly. Our broker business that does do high net worth, but it does go deeper into the market, and our MPF business in Hong Kong.

And then we brought in the Bermuda business, which – the international side and added Singapore to leverage the thinking around the high net worth and to leverage the relationships that we have with the brokers. So, there is a bunch of components that are inside of the International Hubs.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. So, it sounds like International Hubs is really a mixed bag. And the decision to move Hong Kong into it was really from an operational perspective to try to get more high net worth business. And it may – but there may not be a lot of paramedical testing with respect to the business in International Hubs. Am I correct in that? You didn't address the...

<A – Léo Grépin – Sun Life Financial, Inc.>: I'd say they're just different segments, Tom. So, the high-net-worth business itself would have underwriting requirements, medical underwriting requirements. But there's other segments of the business, for example, we have the strong local broker business in Hong Kong, which is more you know mass market, affluent, which depending on the product may or may not require medical testing.

And then we have our MPF business, where we're the second fastest growing MPF business in Hong Kong and the third largest in terms of AUM, that also contributes significantly to our growth. And we have our agency business, which also is more of a mass affluent type of business with a strong savings component, retirement component, health components and so on, which may or may not have complicated underwriting requirements.

And for that local business, hospitals are open in Hong Kong. Today, we had seven unlink cases. People are going about their business, so if there is a medical exam required for a local client, they are doing their medical underwriting.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. And then last one is which one of those Asian segments do you, Local Markets or International Hubs would have the greater – would have the more positive impact on new business on a scale. Like are the margins the same in the two types in those two Asian business, but you get more of a gain on sale in International Hubs.

<A – Léo Grépin – Sun Life Financial, Inc.>: It's fairly similar.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay.

<A – Léo Grépin – Sun Life Financial, Inc.>: High net worth is slightly bigger contribution to our new business gains, but in a similar ballpark.

<Q – Tom MacKinnon – BMO Capital Markets Corp. (Canada)>: Okay. Thanks for that.

Operator: Your next question comes from the line of Meny Grauman from Scotiabank. Your line is now open.

<Q – Meny Grauman – Scotiabank>: Hi. Good morning. Just wanted some more clarity on the consolidation of real estate in North America, you talk about a CAD 40 million to CAD 60 million charge. Just wondering how bold you're going to be in this issue in terms of, how much square feet are we really talking about.

Is this a big change? Do you expect a big percentage of the workforce to kind of work from home at least part of the time, kind of what's your thinking here in terms of the outlook for your corporate real estate footprint, and how significant is this decision?

<A – Kevin Strain – Sun Life Financial, Inc.>: Meny, it's Kevin. And if you looked at our footprint for our own use real estate across North America including financial centers, it's just under 15% of our space. And I think it's a number of things. It's our ability to work from home effectively, which we've been able to demonstrate the past 10 or 11 months.

It's also, if you went back and you looked at our office usage and run rate usage which is something, we look at really closely we did have an opportunity even before COVID to shrink a bit. And it's -- we took the opportunity this quarter to bring both of those pieces together. The financial centers are in the charge, we took this quarter of CAD 20 million and the additional office space is coming through in the next quarter.

But we that's a reasonable place to land. There's still lots of work to think about in terms of the future of work and how people are going to work and those types of things. But we thought that this sort of reduction position as well.

<Q – Meny Grauman – Scotiabank>: And I think you talked about the expense savings for the fees you took this past quarter, but for the charge that you're singling in 2021, what kind of expense savings are there?

<A – Kevin Strain – Sun Life Financial, Inc.>: It's roughly CAD 20 million and it may seem smaller on a per dollar basis and it's partially to do with future lease costs and those types of things. And also reinvesting into the space to create a different sort of workspace for the offices.

<Q – Meny Grauman – Scotiabank>: Okay. And then just as a follow-up sort of, what are the implications in your view for the investment side of your business. Obviously, you hold a lot of real estate investments. This kind of decision that you're making at a corporate level, how does that reform where you think real estate valuations are going to have any implications?

<A – Dean Connor – Sun Life Financial, Inc.>: Meny, it's Dean Connor. I'm going to ask Steve Peacher to take that one on.

<A – Steve Peacher – Sun Life Financial, Inc.>: Thanks, Dean. Hi. Thanks, Meny. Certainly – every business has a thing about how we'll be working post-COVID, we're certainly seeing announcements from some companies vacating space and that obviously raises questions about office.

I would say – I would emphasize that you have to keep in mind that the – about the institutional real estate markets are huge. They're global. And they include many different property types. So, it's difficult to have just one outlook for real estate broadly.

For instance, there are many areas where in real estate they're doing extremely well. For example, BentallGreenOak's European funds have generated great returns for investors even during the pandemic because they've been so focused on industrial properties, which continued to show fantastic returns and they're now moving into areas like cold storage, which are seeing incredibly strong demand.

It's certainly reasonable to be concerned about the near-term outlook for office, but even there it's heavily dependent upon property and location. And for instance, the office market in Tokyo is very strong and our team there continues to generate high-double digit returns by focusing on that asset class. At the same time, their office properties that are facing vacancy issues and have fallen in value. So, I think it's by property type, by location.

I will say, final comment that institutional investors are still very interested in the asset class. We had a for example -- we had a first closing on our BentallGreenOak Core Plus Fund in June of last year, squarely in the middle of the pandemic and we had higher than target fundraisings in our European and Asian funds just in the fourth quarter.

And one other anecdote, I know there have been a lot of articles recently about companies vacating space. You're also seeing the opposite in some instances. I mean I'm in Boston, just an announcement last week that Amazon has signed a lease for 630,000 square feet in the Seaport District. So, it's a big sector with a lot of different puts and takes.

<Q – Meny Grauman – Scotiabank>: Thanks for that Steve.

Operator: Your next question comes from the line of Gabriel Dechaine from National Bank Financial. Your line is now open.

<Q – Gabe Dechaine – National Bank Financial, Inc.>: Just a quick one on the reinsurance transaction, I'm sorry if this got asked before but you mentioned one of the ACMA charges this quarter was on the reinsurance transaction in the life runoff business there in the States. Can you tell me what you're aiming to get out of that, and if it's some sort of reaction to indirect impacts from COVID that we are anticipating?

<A – Kevin Strain – Sun Life Financial, Inc.>: Gabe, it's Kevin. We'll turn that to Kevin Morrissey.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Thanks, Gabriel. So, this is Kevin Morrissey. In the quarter the reinsurance transaction that you noted, there was a cost of CAD 53 million that came through in the ACMA. The purpose of that was really two-fold. One was to ensure some of the large case mortality exposures, you would have heard over the past year or so, some of the volatility that we've had in US related to IFM from large claims. So, we've taken the opportunity to reinsure some of the large exposures. So, we do expect a reduction in volatility.

We also got a capital benefit from this. So that's also noted in our disclosures, it was a 1-point improvement in terms of the diversification benefit broadly, so that was another benefit. I should note as well that on an economic basis, so when we look at our best estimate assumptions, this was positive. So, the strain is really coming from PfADs, which we expect to come back into income overtime.

<Q – Gabe Dechaine – National Bank Financial, Inc.>: Okay. And on the capital management front understanding that there are some restrictions on distributions. If those restrictions were lifted tomorrow, would you be looking at raising the dividend? It looks like you're going to be – the low end, if not below the low end of your payout ratio this year, if we don't see any big noise in the world, how do you view that?

<A – Dean Connor – Sun Life Financial, Inc.>: Gabriel, it's Dean, when OSFI lifts the moratorium on dividend increases, whenever that happens, we do expect to resume a pace of regular dividend increases. And our intent will be to land the dividend payout ratio in that 40% to 50% range.

As you noted, I think for the year, we were at the lower end of that range. I think in the quarter we slipped a little bit below it. And those MTOs do apply over the medium term. So, you know you can expect to see us get back to that range over some period of time and that period of time is to be determined.

<Q – Gabe Dechaine – National Bank Financial, Inc.>: Right. Thank you.

Operator: Your next question comes from the line of Paul Holden from CIBC. Your line is open.

<Q – Paul Holden – CIBC World Markets, Inc.>: Thanks. Good morning. Two questions. First is related to US Group or maybe just an update on pricing conditions both in stop-loss and employee benefit plans with the January renewals?

<A – Dan Fishbein – Sun Life Financial, Inc.>: Thanks, Paul. You know we did see some intensification of price competition especially in the fourth quarter. As was noted earlier, some of our competitors really did not have great sales results during the year. And it seemed that some of them were trying to make up for that toward the end of the year.

We had had good sales results throughout the year, so we were able to stick to our guns and price within our pricing targets. Overall, on both new business and renewals, but in both stop-loss and group, we did see some increase in price competition in the fourth quarter.

<Q – Paul Holden – CIBC World Markets, Inc.>: Thank you for that. Second question is related to run-off business, I guess it applies to both US and UK and I know, Dean, you've been very consistent in answering questions on this in the past, in terms of unlocking future profits and cash flows by optimizing those businesses.

But we're seeing an increased activity in transactions and increased appetite through new players. I'm wondering if that's swaying the economics at all, that might put a transaction in a more favorable light than have been historically.

<A – Dean Connor – Sun Life Financial, Inc.>: Thanks Paul. It's Dean here. You're right and that our focus job one has been to really run those run off businesses well, to optimize them for tax and capital and use of reinsurance and expenses and so on, investments. So – and you're right to note that in some places there has been an uptick in activity to acquire closed blocks, including private equity getting increasingly involved in that space.

But I would say to you for over a number of years, there has been a lot of transactions going on both in the UK market and in the US market around closed block business. Back in 2013, we sold our annuity business as you recall, and it was a robust process at that time.

So, I think there is good demand out there. It's good to have that optionality, if and when we take advantage of it. But for now, we're going to continue to try to optimize those businesses.

<Q – Paul Holden – CIBC World Markets, Inc.>: Okay. Great. Thank you.

Operator: Your next question comes from the line of Doug Young from Desjardins Capital.

<Q – Doug Young – Desjardins Capital Markets>: Good morning. I'll try to keep this quick. Just lapse experience was negative CAD 18 million this quarter. If I go back, I mean it's been negative quite consistently for many quarters. I know you did an ACMA charge on lapse and we're still seeing the negative experience, I'm hoping just to get that you can flush out a little bit more of what you're seeing on the lapse side and whether you think this is just a temporary item around COVID or is there something more behind this?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah, Doug. It's Kevin Strain. We'll let Kevin Morrissey address that one.

<A – Dean Connor – Sun Life Financial, Inc.>: Kevin Morrissey you might be on mute.

<A – Kevin Strain – Sun Life Financial, Inc.>: If Kevin's dropped out, I'll take -- I'll take a crack at it and see if he comes back on Doug but is that...

<A – Kevin Morrissey – Sun Life Financial, Inc.>: I've got it.

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Okay. Sorry I've got it now. Yeah, my phone froze up.

<A – Kevin Strain – Sun Life Financial, Inc.>: Okay.

<A – Kevin Morrissey – Sun Life Financial, Inc.>: Thanks for the question Doug. Yeah. We did have CAD 18 million of lapses in the quarter, so that was a bit disappointing. Looking across the business we had single digit losses across about eight lines. So, it wasn't concentrated in any one business, as well it wasn't just lapse.

So, looking into it, deep dive a bit, investigating the sources we had about half of it was from lapses. Half of it was from other policyholder behavior like resets on options, pick up rates on some annuitization guarantees, reinstatements, conversions, and the like.

So, after investigating the sources of our Q4 experience I would say I'm not concerned at this point despite the fact that the result in aggregate was disappointing. So, I guess to answer your question directly, I'm hopeful that this is one of those quarters where everything seems to just go against us, and we'll have to look in the future to see how that will – how that will turn around. Hopefully, we'll see something different for the next quarter.

<Q – Doug Young – Desjardins Capital Markets>: Okay. And then just second on Asia, the CAD 20 million impairments to the JV in India. Can you just – maybe talk a little bit more about what that related to?

<A – Dean Connor – Sun Life Financial, Inc.>: Léo, you want to take that?

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah, I'll take that one. Thanks, Doug. So, the impairment is related to an investment we made in a fund with our joint venture partner in India to support the development of the business. And given what's happening right now with market conditions and COVID-19, the fund underperformed. And we needed to take this CAD 20 million write-down based on current valuations.

<Q – Doug Young – Desjardins Capital Markets>: But do you still own that, could that be written back up again? Are we going to see that level of volatility?

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah, possibly.

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah, Doug. Just to be clear, we do still own that investment.

 Copyright © 2001-2021 CallStreet

<Q – Doug Young – Desjardins Capital Markets>: Okay. Sounds like you had a net loss.

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. You have to look the real estate market in India, India is a fast-growing economy, right. They're expecting close to 10% GDP growth next year.

<Q – Doug Young – Desjardins Capital Markets>: Yeah. Okay, great. Thank you.

Operator: Your next question comes from Nigel D'Souza from Veritas Investment Research. Your line is now open.

<Q – Nigel D'Souza – Veritas Investment Research Corp.>: Thank you. Good morning. I had a quick question for you on earnings on surplus. I noticed this quarter you had a nice rebound in investment income. I was wondering if you could speak to the drivers there. I know you mentioned leveraging SLC, and on a go forward basis, do you expect earnings on surplus to stabilize at current levels or do you see a pathway for generating higher earnings on surplus?

<A – Kevin Strain – Sun Life Financial, Inc.>: Yeah. So, the earnings on surplus, as you know were CAD 114 million, so a bit above our run rate and I would say that this was a fairly strong quarter for earnings – earnings on surplus. In fact, the lower AFS gain that we – or the – the hit to the Indian real estate assets, which resulted in lower AFS gains, we just talked about came through the surplus line.

It was offset by some higher seed capital returns. You may remember from the first quarter we had some seed capital losses, and we continue to see some of that come back and we had some higher LP distributions.

Overall, I would say that at CAD 114 million that's probably on the higher side of what we would expect surplus to be and it's been coming down with yields coming down over the past few years. So, and if I was thinking about a number there, I think closer to CAD 100 million.

<Q – Nigel D'Souza – Veritas Investment Research Corp.>: Okay. That's very helpful. Appreciate the color.

Operator: Your next question comes from the line of Darko Mihelic. Your line is now open.

<Q – Darko Mihelic – RBC Dominion Securities, Inc.>: Hi. Thank you. Good morning. I think my question's for Kevin and Kevin. And I'm going to use annual numbers to sort of explain what I'm looking at here which is expected profit growth in Canada and Asia. So, when I look at 2018 in Canada 5% expected profit growth, that accelerated to 10% in 2019 and now 14% in 2020. When I look at Asia, the opposite trend, it was at 17% in 2018, fell to 6% percent in 2019 and now below 4% in 2020.

So, the question is, are these trends expected to continue in terms of growth of EP, what caused it more to the point where I'm looking for really as a sort of general view on expected profit growth for each of these business lines in 2021 and beyond. Thanks.

<A – Dean Connor – Sun Life Financial, Inc.>: Darko, it's Dean. Thanks for that question. I think why don't we start -- we'll just break it into Asia and Canada. We'll start with Léo to comment on the trajectory in Asia and how we're thinking about that and then Jacques can comment on Canada.

<A – Léo Grépin – Sun Life Financial, Inc.>: Yeah. Good morning, Darko. If you look at the trend in Asia, you're right, Q4 expected profit was at about 5% versus prior year. You know what's

FACTSET:callstreet
corrected transcript

happened in this quarter is that we had business growth, which was offset by higher planned expenses in our regional office to support the growth of the business.

Now, the planned regional office expenses were actually reduced or deferred this year, given the general market environment and our expense discipline, which resulted in a favorable expense experience. So, there's an accounting geography here component.

And Kevin alluded to that earlier. If you account for the savings, we experienced in our planned expenses in the regional office, expected profit would have been up 9% year-over-year.

Now, if you look at our business in Asia, we have a number of markets that are not yet at scale. So, in terms of our growth, we've got to look at expected profit, but we also look at new business gain. And if you combine expected profit and new business gain together, the growth rates of these two components would have been in the mid-teens.

And if you account for the geography of the savings in the regional office expenses, you'd actually be a few percentage points higher than that. So, from a fundamentals of the business, if you look at expected profit plus new business gains, we are seeing this double-digit growth in the business.

<A – Jacques Goulet – Sun Life Financial, Inc.>: Darko, this is Jacques. In Canada, I would say it's not one thing, it's many things in a way. It's a big focus on expense and discipline, it's looking for a better mix. It's pricing properly. It's continuing to invest in digital. To give you an idea, I think we've talked about before, our digital coach Ella.

Ella is getting smarter and smarter. So, in 2020, we gave clients something like 15 million nudges that led to CAD 700 million of deposits and CAD 1 billion of additional coverage in insurance. So, it's a number of things.

One of the things I would say and point out is, I put it to about half of it as business growth, half of it as expense discipline. I mean, of course as you can imagine the expense discipline at some point in time will stabilize and but when you look back at it, I would say it sort of speaks to the underlying strength of all of our businesses. We are the leader in GB and GRS as you know and we're leaders in individual insurance. And we're just running the business very well. And that speaks to the earning power of the division and certainly in line with the MTO.

<Q – Darko Mihelic – RBC Dominion Securities, Inc.>: And just a quick follow-up on that if I may with respect to business growth and you mentioned the digital, is it safe to say that this is still early days or was the business growth somewhat at a high pace and you expect it to moderate now that these nudges are sort of – like, will the nudges sort of slow down and should I expect business growth to slow a little bit going forward now that it's a little more mature?

<A – Jacques Goulet – Sun Life Financial, Inc.>: Well, it's tough to say Darko, because in a way, in a number of our businesses where things are still early – Kevin in his remarks talked about the acceleration of digital investments. So, I would say Canada has been on that path for a number of years, but we are continuing to really put a lot more focus on digital we're playing a greater role in health for example.

You saw investment we made in virtual care, halfway through last year. I would point you out also to some of our growth engines are coming to a nice level of maturity. So, one example I give you is SLGI, as you know it's a business that we started 10 years or so ago and it's contributing nicely in terms of momentum now because we've crossed the path of profitability. So – there's lots of runway ahead of us when it comes to our growth engines.

<Q – Darko Mihelic – RBC Dominion Securities, Inc.>: Great, thank you.

Operator: We have no further questions at this time, and I will turn things to Ms. Chalmers for closing remarks.

Leigh Chalmers, Senior Vice President, Head-Investor Relations & Capital Management, Sun Life Financial, Inc.

Thank you and I would like to thank all of our participants today. If there are any additional questions, we will be available after the call. Should you wish to listen to the broadcast, it will be available on our website later this afternoon. Thank you and have a good day.

Operator: And this concludes today's call. Thank you for your participation. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021. CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.