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PRESENTATION

Operator

Good morning, and welcome to the Sun Life Financial Q4 2024 conference call. My name is Gaylene, and I will be your conference operator today. (Operator Instructions)

The host of the call is Paul Poon, Assistant Vice President, Investor Relations. Please go ahead, Mr. Poon.

Paul Poon - *Sun Life - Assistant Vice President, Investor Relations*

Thank you, and good morning, everyone. Welcome to Sun Life's earnings call for the fourth quarter of 2024. 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 - President & Chief Executive Officer*

Thanks, Paul, and good morning, everyone.

Turning to slide 4, Sun Life's Q4 results highlight our continuing commitment to helping our Clients achieve lifetime financial security and live healthier lives. Fourth quarter underlying earnings saw good results in Canada, Asia, and Asset Management, offset by lower U.S. results on weaker stop-loss morbidity claims experience. The stop-loss claims experience in the U.S. was driven by higher claims severity, which we have observed across the industry. Reported earnings were down year over year from market-driven factors, as well as the negative impacts from several one-time items that we don't expect to reoccur. Tim will go through these one-time items in more detail.

Wealth sales and asset management gross flows were up 33% on strong distribution execution at MFS and SLC. Strong net flows at SLC were more than offset by the negative net flows at MFS, which were consistent with the continued outflows across the industry. Individual - Protection sales were up, driven by strong sales in Asia. Group protection sales were down, reflecting the lower number of large cases coming to market in the quarter and our pricing discipline. Group sales are lumpy, and we continue to have strong momentum in our Canadian and U.S. group businesses.

We ended the quarter with a strong capital position with a LICAT ratio of 152% at SLF. Given our strong capital position, we will continue to execute on our buybacks under our normal course issuer bid.

Moving to slide 5, let's look at the Q4 highlights and our progress against our Purpose and our strategy. In Asset Management, the fundamentals of our businesses remain strong. SLC Management achieved record capital raising of $10 billion this quarter, bringing our full-year total to $24 billion, and net inflows this quarter at SLC were over $14 billion.

MFS long-term retail funds performance remained strong, with 95% of fund assets ranked in the top half of their respective Morningstar categories based on 10-year performance. MFS continues to see solid fixed income net inflows, with US$1.5 billion this quarter driven by their distribution strategies and strong fund performance. In December, MFS launched five active ETFs, expanding our diverse range of investment products and saw continued sales momentum with their separate managed accounts.

In Asia, we're accelerating our growth momentum. We're realizing value from our high-quality, well-balanced mix of distribution channels across Asia. Our agency channel grew with year-over-year increases in sales and the number of agents, while we continue to strengthen our bancassurance relationships with leading banks across Asia. Individual sales were up, driven by healthy High Net Worth sales, growth in India bancassurance and direct-to-consumer channels, and robust growth in Hong Kong agency and bancassurance.

In our India joint venture, our full-year underlying earnings for insurance and wealth surpassed the $100 million milestone this year, maintaining our strong growth trajectory there. In Indonesia, we recently launched our expanded partnership with CIMB Niaga with integrated digital capabilities and co-branding.

In Canada and the U.S., we are showing strength in our core health businesses. In Canada, group benefits revenue was up 11% compared to the same period in the prior year. In the U.S., we see continued momentum in group benefits revenue, up 6% compared to the same period in the prior year. Additionally, our U.S. dental business is building momentum with stabilization in membership and improving results driven by repricing and claims expense management actions.

On the digital front, we're driving impact at scale. Our leading virtual care provider in Canada, Dialogue, now offers virtual care services to more than 3.5 million Clients and their families, including primary care and mental health support. This represents over 8 million Canadians, approximately

20% of the Canadian population. Our services are delivered through partnerships with nearly 50,000 employers, insurance companies, and various organizations nationwide.

In the Philippines, we launched Advisor Buddy to help approximately 5,000 new advisors to speed up their onboarding journey. The new generative AI tool provides fast and accurate answers to what new advisors can do to start serving Clients more effectively. These digital highlights demonstrate our commitment to drive meaningful Client impact, efficiency, innovation, and growth through digital leadership.

Our exceptional people and culture are reflected in our Employee Engagement Index average score of 88%, which has been above the financial services industry norm for more than five consecutive years. In 2024, Sun Life was certified as a Great Place to Work in all participating markets. This recognition reflects Sun Life's commitment to fostering high-performing, future-ready, and a welcoming environment where our people thrive and are empowered to deliver on our Purpose.

Turning to slide 6, we ended 2024 with solid full-year results. Underlying net income increased 3% to $3.9 billion. Our total assets under management reached a new milestone at $1.54 trillion. In Canada, we achieved record underlying net income of $1.5 billion, up 6% over the prior year, supported by solid results across all businesses. Wealth AUM is up 13%, with Defined Benefit Solutions, our pension risk transfer business, achieving record annual sales of $2.5 billion.

In the U.S., we grew Client revenues to US$8.2 billion, driven by successful execution of our health strategy. We also saw record underlying earnings and Employee Benefits.

In Asia, we saw strong growth momentum and achieved underlying net income of more than $700 million, up 17% year over year. These are record results driven by strong protection sales. Total Asia CSM grew by 30%, reinforcing our growth trajectory.

Our results demonstrate the strength and resilience of our business. We will continue to build upon this strength and remain purpose-driven as we move into the year ahead.

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

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

Thank you, Kevin. Good morning, everyone.

Turning to slide 8, we ended 2024 with results in line with the prior year. Underlying net income of $965 million was modestly down 2% year over year, while underlying earnings per share of $1.68 was flat compared to the prior year. Full-year underlying net income of $3.9 billion and underlying earnings per share of $6.66 were up 3% and 5% year over year, respectively.

Q4 2024 and full-year underlying return on equity was 16.5% and 17.2%, respectively. Underlying ROE was impacted by lower underlying net income and growth in book value, driven primarily by currency impacts. The decline in quarterly underlying results over the prior year were primarily driven by adverse morbidity experience in our U.S. Health & Risk Solutions business due to an increase in claims severity, which has been observed across the industry. Overall, our results continue to benefit from Sun Life's resilient businesses and diversified business model.

Wealth and asset management underlying earnings were up 11% over the prior year on higher fee income, primarily from increased asset levels, partially offset by credit experience in Canada. Group - Health and Protection underlying earnings were down 27% year over year, driven primarily by unfavourable morbidity experience in U.S. medical stop-loss and less favourable morbidity experience in Canada. These impacts were partially offset by solid business growth in Canada. Individual - Protection underlying net income was up 19% over the prior year, resulting from improved protection experience and higher Asia Joint Venture contribution.

Reported net income for the quarter was $237 million, which was $728 million below underlying net income. The variance between underlying and reported net income included market-related impacts and several one-time items, which we do not expect to recur.

First, our reported net income was impacted by lower tax-exempt income on foreign currency assets from the material strengthening of the U.S. dollar compared to the Canadian dollar in the fourth quarter. We are taking actions to mitigate this tax volatility going forward. And second, in Vietnam, we recognized an impairment charge on the intangible asset related to our bancassurance agreements. This charge reflects updates to our outlook reflecting industry and macroeconomic factors in that market.

Market-related impacts reflected unfavourable net interest rate, equity market impacts, and the adverse real estate experience. Real estate returns were flat in the quarter, but below our long-term return assumptions. Organic capital generation remained solid at $350 million this quarter, or 36% of underlying net income, driven by underlying net income and new business CSM.

Our balance sheet and capital positions remained strong, with an SLF LICAT ratio of 152%, flat from the prior quarter, as organic capital generation was offset by the impact of markets and share buybacks. Holdco cash remains robust at $1.4 billion, and our leverage ratio improved sequentially and remains low at 20.1%.

Total CSM of $13.4 billion, which is a store of future profits, increased by 13% year over year, driven by strong organic CSM growth and currency impacts. New business CSM of $306 million was down 20% year over year, driven by changes in sales mix this quarter.

Finally, book value per share increased by 11% over the prior year and 2% quarter over quarter, demonstrating our ability to generate strong growth while returning value to our shareholders, with 3 million shares repurchased this quarter under our share buyback program.

Turning to our business group performance on slide 10, MFS's underlying net income of US$216 million was up 13% year over year from higher average net assets, partly offset by expense growth. Reported net income of US$216 million was up 18% year over year. Pre-tax net operating margin of 40.5% improved by 1.1 percentage points over the prior year, driven by higher average net assets.

Assets under management of US$606 billion was up 1% over the prior year, but down 6% over the prior quarter. The sequential decline in AUM was driven by net outflows and market depreciation. This quarter, outflows of US$20 billion included several large institutional mandate redemptions and retail outflows. Institutional outflows included portfolio rebalancing and fund consolidation. Retail outflows, while negative, improved over the prior year and reflected the continued preference of investors for high-growth tech stocks and shorter-term interest-bearing products.

Overall, long-term investment performance for MFS remained strong, with 95% of fund assets ranked in the top half of their respective Morningstar categories for 10-year performance. Fixed income performance was also strong, with 98% of fund assets ranked in the top half of Morningstar on a 10-year basis.

Turning to slide 11, SLC Management generated underlying net income of $59 million, down 16% year over year, as higher net seed investment income was more than offset by lower fee-related earnings. Fee-related earnings of $79 million were down 14% year over year, as higher incentive compensation, driven by strong fundraising at BGO, was more than offset by higher fee-earning AUM.

Reported net income of $25 million was down 47% over the prior year, reflecting market-related impacts and lower underlying net income. SLC Management achieved record capital raising this quarter, with $10.2 billion raised, up $3.1 billion from the prior quarter across all affiliates. Strong capital raising helped drive record net flows of $14.1 billion.

Deployments of $6.3 billion was down from the prior year, but remained solid, as we observed sequential quarterly growth in deployments across all affiliates. SLC's fee-earning AUM of $193 billion was up $16 billion year over year, reflecting market growth and net deployments.

Turning to slide 12, Canada delivered solid results with underlying net income of $366 million, up 5% year over year, on higher fee-income and strong insurance business growth, partially offset by lower net investment results. Reported net income of $253 million included net unfavourable market-related impacts.

Wealth and asset management's underlying earnings were up 10% year over year, as business growth and higher fee-related earnings were partially offset by negative credit experience. Canada reported record wealth AUM of $189 billion, which was up 13% year over year on market appreciation and positive net flows.

Group - Health and Protection underlying earnings were down 4% year over year, as business growth was more than offset by less favourable morbidity experience compared to the prior year. Group sales were down 49% year over year due to higher large case sales in the prior year.

Individual - Protection earnings were up 13% year over year, reflecting favourable mortality experience. Individual - Protection sales were down 17% year over year due to lower participating policy sales through the third-party broker channel.

Turning to slide 13, Sun Life U.S. underlying net income was US$115 million, down 39% from the prior year. In Group - Health and Protection, underlying earnings were lower by 46% year over year, driven by unfavorable morbidity experience in medical stop-loss from higher claims severity, which we're observing across the industry. This impact more than offset strong underlying business results in group and improved Dental results.

In Dental, the business benefited from management actions to secure repricing on Medicaid business, generate sales, and deliver efficiencies. We will continue to drive profitability improvements through these levers.

U.S. Group - Health and Protection sales of US$830 million were down 11% year over year, driven by lower government dental contracts as fewer opportunities came to market this quarter. Individual - Protection underlying earnings were in line with the prior year.

Reported net loss of US$1 million includes negative market-related impacts and a non-recurring provision in Dental.

Turning to slide 14, Asia's underlying net income was strong at $175 million and was up 20% year over year on a constant currency basis. Results benefited from improved insurance experience, higher contributions from joint ventures, and higher fee income.

Reported net income of $11 million includes the impairment charge related to an intangible asset for bancassurance agreements in Vietnam and market-related impacts. We continue to see strong sales momentum in Individual - Protection in International, India, and Hong Kong. And finally, Asia's total CSM grew to $6 billion, up 30% year over year, driven by strong organic CSM growth and currency impacts.

And with that, I will pass it back to Kevin to conclude on the prepared remarks for this call.

Kevin Strain - *Sun Life - President & Chief Executive Officer*

Thanks, Tim.

In closing, our commitment to our Purpose, our Clients, our people, and our values remain constant and unwavering. We're focused on helping our Clients achieve lifetime financial security and live healthier lives. We're confident that Sun Life's balanced and diversified business strategy, as well as our financial strength, will position us to deliver on our medium-term objective, which we introduced at our last Investor Day.

I want to thank all our employees and advisors around the world for their commitment to Sun Life's Purpose and for making a positive impact for our Clients around the world.

I will now turn the call over to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yeah. Thanks, and good morning. Question's really just with -- questions with respect to the stop-loss here. Dan, maybe you can share with us the loss ratio in the fourth quarter, how that's trending, what's the outlook, maybe some commentary about price increases you got through in the fourth quarter, price increases you're getting, you expect to get going forward, and maybe elaborate a little bit about how complete these claims are, maybe the paid loss ratio versus the actual loss ratio. Thanks.

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

Okay. Good morning, Tom. It's Dan. So let me take each of those and also give a little bit of context.

Obviously, we had a variance in the stop-loss, loss ratio in the fourth quarter. There are two aspects to the experience that's emerged for 2024 in stop-loss. As we talked about throughout the year, utilization returned to pre-COVID norms earlier in the year. And utilization remained at roughly that level throughout the year. What we saw in the fourth quarter was a change in the severity of stop-loss claims.

So just a comment or a reminder about how stop-loss claims emerge. Most of the business is effective and renews each January 1. Stop-loss has a fairly high attachment point. These are very severe medical claims. Attachment points, or think of it as a deductible, are often $150,000, $250,000, or even $300,000. So by the time a claim accumulates to that level, it does take some time versus when the case was effective.

So it's really during the fourth quarter of the year and even the first quarter of the following year when we actually receive most of those claims. We get some insight into those claims throughout the year, but we actually see the details when the claims come in.

And what we and others who've reported in the industry saw in the fourth quarter was those claims were meaningfully more severe than had been the case in the past. The impact in the fourth quarter really affects the entire year as opposed to just the events attributable to that quarter. So obviously, we restate the way we think the year is emerging based on the claims as they're coming in.

So you saw a spike in the loss ratio in the fourth quarter, but probably the most important loss ratio number to think about and which I'll share is what that resulted in in terms of a full-year loss ratio. The full-year loss ratio for stop-loss in 2024 was 74%. You may recall we priced to about 73%. So it was a little bit higher than our pricing target.

Now, because of the utilization emergence and other factors, we had been raising our prices. We started to move those price increases up actually in the middle of 2024. You will see and will experience significant price increase from the 1/1/25 action. Most of the business renews on 1/1/2025, and also, there were significant new sales. We achieved about a 14% pricing increase on 1/1/25. And we also took underwriting actions in terms of the business we renewed versus didn't renew, which we think actually gave us about a2% favourable result to where we were on those kinds of actions around the same time last year.

So with that, Tom, have I answered all your questions, or do you have a follow-up?

Tom MacKinnon - *BMO Capital Markets - Analyst*

Well, I think the way things are disclosed, you have the expected amount in the PAA and then the policyholder experience picks up something that's different than the expected. The -- if your expected was a 73% and the actual was a 74%, I guess we have to look at it for the entire year as opposed to just the quarter.

But I guess how should we be looking at this going forward? In 2023, it looked like your loss ratio was between 65% and 70%. And so I assume then if you priced it into 73%, you would have been able to pick up positive policyholder experience and loss in 2023. If you're pricing to 73% for 2024, then how should we be thinking about any adverse policyholder experience for 2024 for this line?

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

Yes, so let's go back a little bit to COVID. During 2020, '21, '22, '23, we experienced extremely favourable utilization. And there are obvious reasons for that. It persisted quite a bit longer than COVID itself because hospitals were understaffed and capacity in the system was lower.

So you're correct on the loss ratio in 2023, it was around 67% for that year, so contrast that with 74% in 2024. And we've been saying really since 2023 that the utilization would return ultimately to pre-COVID or normalized levels. And indeed, it did. So we'd certainly been expecting for a while some rebound in the loss ratio. So we've been taking pricing action consistent with that throughout, while understanding that we would not be able to maintain those extra favourable results that were coming from the unusually low utilization. So you're right also in thinking about 2024, you have to think about it in the context of the year versus the standalone quarter because that really -- that experience applies to the year.

And then moving forward, we've taken additional pricing actions moving into next year. Now, obviously, some of this increase in severity was not fully expected. So there's likely to still be some pressure as we move into 2025. But there also were pricing actions and we will take additional pricing actions. We believe the additional pricing actions we need to take are modest in the range of about another 2%. You may have seen some of our competitors talking about pricing actions they need to take, which are many, many times that.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Sorry, what were the additional pricing actions that you are taking?

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

Well, first of all, effective 1/1, we did achieve 14% average rate increase. We also took additional underwriting actions, which as I mentioned before were worth probably about 2%. And then we do think we need to raise our prices about another 2%, which we are in the process of doing.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. So what's the outlook then for this line for 2025 if we went -- if we ran 2024 at 74%?

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

Yeah. I'm not sure we're prepared to give a specific loss ratio pick for 2025. We would say we would expect some pressure from severity to persist. We don't think this is a short-term impact. This may be the new level of severity that we would see. But we think the order of magnitude of action that we need to take in order to address it is around that 2% incremental price increase.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And just -- is the way these things are booked, is the fourth quarter when you really do all your catch-up here? So is this -- should we be looking at stop loss for the full year as opposed to just the fourth-quarter results?

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

Well, I mean, I wouldn't quite call it catch-up, but it's kind of back to the point I made earlier. We really don't receive most of the claims until the fourth quarter and then some into the first quarter of the following year.

So while we certainly get some indications as to what's happening, we also have arrangements with many of our third-party administrator partners to give us claims information about claims that are on their way towards hitting a stop-loss deductible. We don't see the actual claim until they come in, which is mostly, as I said, in the fourth quarter. So while it's not catch-up, the results clearly do affect the entire year.

Just to put it into perspective, two-thirds of our business is effective on January 1 of each year, and it takes five quarters for us to get to about 90% actual claims experience on that cohort. So right now, what we're really seeing is the results of last January's effective dated business.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. Thanks for that.

Operator

Gabriel Dechaine, National Bank Financial.

Gabriel Dechaine - *National Bank Financial - Analyst*

Hi. Good morning. Just a follow-up on that line of questioning. So two-thirds of the book has been repriced as of 1/1. So that pricing has an impact on this year, 2025. So there should be margin improvement or restoration on that basis alone, correct?

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

Yes, it's a little more complicated than that. So I would add two points to that. Some of the experience that we report on in 2024 was actually experienced from 2023. So recall that I said 2023 had a 67% loss ratio, a very favorable year. Now, we no longer have the benefit of the 2023 business.

The other adjustment I would make to that is we started adjusting pricing in the middle of 2024. So we have taken pricing action on more than two-thirds of the business, but also, as I said, we probably do need to take a little more pricing action.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay. So ignoring that 2% of additional pricing action required, just what you've done so far, when should we expect that to be fully reflected in your book?

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

Well, being that we do need a little bit more price, it would obviously take through next January for us to be fully through that. But there should be meaningful impact even from the pricing actions we took effective 1/1/25.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay. And then you said the claims filter in -- well, not filter, deluge, rather. It comes in Q4 and a bit in Q1, like what we're in currently. So we could see another blip in Q1 based on 2024 claims.

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

No, I was just going to say that most of the claims come in in fourth quarter and then also in first quarter of the subsequent year. So yeah, there could be some pressure that continues into the first quarter from that.

Gabriel Dechaine - *National Bank Financial - Analyst*

And the message you're giving us, the 14%, the price increase, the 2%, which is lower than what we've heard from peers, is reflective of the pricing discipline that you exercised in prior years, like not assuming that the good times are going to last forever type thing, right?

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

Yeah, exactly. And we've been pretty open about that. We've been saying for a couple of years that the low utilization from COVID can't be baked into the future, and we priced for an assumption that things would go back to normalized levels, which, indeed, they have.

And yes, you're correct. The loss ratio we're reporting, the degrees of price increases needed are quite modest compared with what some of our competitors are reporting.

Gabriel Dechaine - *National Bank Financial - Analyst*

Yeah, okay. And then switching over to -- yes.

Kevin Strain - *Sun Life - President & Chief Executive Officer*

Sorry, Gabe. It's Kevin. If I took a step back, I'd say this is a business that we've been in a long time and we have scale and we understand. And we saw through the COVID period that morbidity performed better from a claims experience, and Dan had been signaling for a while that that would come back. It came back faster than we expected, in a way, this quarter because of severity. And so we'll adjust that with pricing, which we can do, but they will take -- it can take a few quarters for that to play out.

But the long-term strategy of the business, the capabilities, our scale, the data that we have, all positions it well going forward. It's a little complicated if you step back and look at it because there is -- COVID had lots of impacts. So for example, the core group benefits business in some quarters underperformed, and that's been performing really well.

So I would just say that we're confident in our strategy here. We're confident that we have the right scale. We have the pricing discipline. And you can see that we were less impacted than many of our competitors. So I would look at it from that perspective. And if you look at slide 18, you can see the morbidity results. Now, that's the whole company, but the US is a big part of that, where you've got the positives in Q3 and Q4 and the negatives this quarter. You can see it post-tax and pre-tax on that slide that gives you some of the indication.

Gabriel Dechaine - *National Bank Financial - Analyst*

Yeah. No, I get that. I don't want to make -- freak out over this stuff. It's just understanding the mechanics, the timing of everything, and just the nuts and bolts, I guess, similar to the redetermination stuff for dental, a lot of that stuff. There's a bit of a learning curve there.

Anyway, switching over to Tim, you mentioned the tax-exempt income. Can you -- the stronger U.S. dollar. Can you explain how that worked out? And you called it a one-time item, but you're taking action to mitigate the volatility. So how is it a one-time item and also something you have to mitigate going forward?

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

Sure. Thanks, Gabe. There are a few pieces to this, so maybe I'll start with a little bit of background.

So under Canadian tax law, a portion of our investments aren't taxable in Canada, as they're tax-exempt. They support our foreign businesses that we operate through branches of our Canadian entities. And historically, we've had a tax benefit under this program really since inception. This year, we had a lower tax-exempt investment income on foreign currency assets and related FX swaps.

And we really saw that from the material strengthening of the U.S. dollar compared to the Canadian dollar. And that overall led to a tax loss, and that's highly unusual for us. As I said, we've always had a tax benefit through the program by design.

So the loss you're seeing in reported income is the difference between the expected tax benefit, which we include in underlying net income, and the actual tax loss, which we experience for the year. And so I say we're taking action because we would really seek to mitigate this tax-related FX noise in reported income so that you wouldn't expect that level of FX-related volatility going forward.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay. And then on the earnings -- lastly, on earnings on surplus. I forget, you've given guidance on sensitivity to rate declines. If I look at slide 20, core investment income down quite a bit year over year, is that really all the impact of the rate cut there? And we should use that in a linear manner for future rate cuts?

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

Yeah, I think that's a fair description. The decline that we see in that core investment income, at least over Q3, is really due to lower yields. I would say at the end of Q4, almost 40% of our surplus holdings were in short-term securities. And we saw 80-basis-point decline in that short-term yield in that quarter alone. There's a modest lesser extent. We had a slightly lower surplus balance. And when you look at overall earnings on surplus, we, of course, had lower fair value through OCI trading gains this quarter.

So in terms of your comment around outlook, going forward, if short-term rates continue to remain low, you can think this as roughly a new run rate for core investment income in the short term. But over time, we'll seek to reinvest those assets into higher yielding products. And when longer-term rates come down, it will also provide an opportunity for fair value through OCI gains.

Gabriel Dechaine - *National Bank Financial - Analyst*

Okay. Is that 40% typical, the allocation?

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

No. In the fourth quarter, we had a lot of repatriations from our operating entities. In terms of capital repatriation, as you can see, in our strong cash generation are going to capital. And so that was just parked in short-term investments temporarily. We wouldn't normally seek to run that at 40%.

Now, surplus is a bit of a mix. We have cash, we have that to use for collateral for derivative needs, and then we have a long-term portion of the holding. But it's more skewed to short term in the current environment because of that inflow of cash. But we'll seek to reinvest that, as I said, as particular rates present themselves for opportunities for yield.

Gabriel Dechaine - *National Bank Financial - Analyst*

Got it. Thanks.

Operator

Meny Grauman, Scotiabank.

Meny Grauman - *Scotiabank GBM - Analyst*

Hi. Good morning. I think this is for Dan. I'm not sure if you addressed this, but if so, maybe I missed it. You've been talking about a target of US$100 million underlying earnings for Dental for '25. Are you able to give sort of similar guidance to the group benefits line in terms of where you see that for 2025?

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

For Dental, we've decided to give a specific target because of the very unusual events last year with the impact of the end of the public health emergency. So we generally don't give a specific earnings target by line of business.

What I would say is it's worth pointing out that our group benefits business, or Employee Benefits business as we call it, had the best year it ever had in 2024. Earnings were up by over 50% and the margin reached above our long-term target of over 6%. So that business is doing very well. It's generating good organic growth, very good loss ratio results, good expense coverage progress as they scale. And that business has quite a bit of momentum, and we expect good results to continue in that business as they did in the fourth quarter.

Meny Grauman - *Scotiabank GBM - Analyst*

Okay. Just another question on SLC this time. I noticed a discussion about capital raisings coming from Crescent and BGO. Crescent makes a lot of sense to me, just given trends. BGO stood out to me, and so I just wanted to get a better understanding of what's driving that and how you see the outlook for capital raising specifically in the real estate sleeve of SLC. Again, a little counterintuitive, just given the pressures that we've been dealing with on the real estate side for a while now. That's the question.

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

Yeah, this is Steve Peacher. Thanks for the question.

You're right. We had, I think, our best fundraising quarter ever at $10.2 billion, and it was really across all the different asset classes. The biggest share of that was in Crescent. A lot of this is due to the timing of fund closing. So at Crescent, we had, I believe, three fund closings and three key fundraisers at Crescent. So in total, that was just over $5 billion, about half of the $10 billion.

But at BGO, we had a big closing in their Asia Fund IV, a really successful group. In fact, I think if you were to look at real estate investment performance in Japan, our team probably has the top results, and so this fund could approach $4 billion, and they had a big closing during the quarter. We also won a sizable separately managed account in Canada in real estate. And then we also, in addition to that, had over $1 billion of fixed income wins and some money coming in for it, too, so it was broad-based.

But I would say in real estate, we're actually starting to see renewed interest. If you look at the impacts on real estate, obviously the overhang on the office sector put a pall over real estate in general. The inverted yield curve really had an impact. If you look at our fundraising for BGO, it was almost $9 billion in 2022. It dropped to $4.2 billion in 2023. At BGO, it was up to almost $8 billion this year, and we think that's going to continue to trend up.

We're seeing more demand for core real estate, and we see that in demand for our prime Canadian fund. You're seeing demand for specific sectors like industrial and cold storage and data centers. So I think with real estate now starting to come down, with office utilization starting to come back up, we're seeing investor demand for real estate pick back up.

Meny Grauman - *Scotiabank GBM - Analyst*

Great. Thanks for the color.

Operator

Doug Young, Desjardins Capital Markets.

Doug Young - *Desjardins Securities - Analyst*

Good morning. Dan, just a few hopefully quick ones here just on the medical stop-loss. I just want to confirm, and I think I know the answer, but 100% of this renews annually. And can you size out the negative morbidity experiences? Is it fair to say it's about US$50 million in the quarter and, assuming things are rolling through, that this should be the worst of it?

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

Yes. So virtually 100% of the business does renew and reprice every year. So that is correct. And then your guesstimate on the morbidity loss is spot-on, very close.

And in terms of the worst of it, that's a more challenging question. Keep in mind, again, that the quarter represented our view of the full-year results for especially for the 1/1/24 cohort. So we certainly wouldn't expect that kind of an adjustment to recur in a single quarter affecting the full year's results. But as I said earlier, there's probably some pressure going forward until we can add that additional 2% that I mentioned to all of the pricing.

Doug Young - *Desjardins Securities - Analyst*

Is there a way you can smooth this out so it doesn't all come in Q4? Is there a better way to smooth it out? I don't know if that's a possibility.

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

Yeah, you're not the first person to ask that question. In a business where you don't fully see the results really for five quarters, a lot of what we do is based on reserving choices. And we do the best we can each quarter to give the -- a very good educated estimate of what's happening with each of the cohorts that we're managing and observing the emerging experience on.

So there already is a fair amount of reserving involved in the business as it moves forward. So to some degree, what you're saying is already in there. But obviously, when things happen that you didn't fully anticipate, you have to make the right reserve call each quarter.

Doug Young - *Desjardins Securities - Analyst*

Yeah, I just think of property and casualty insurance and the reserve up front. And we always look for positive reserve developments from something like that. But that's kind of where it's going.

And then Dan, on the U.S. Dental side, there's a one-time payment for ASO for remediation reimbursement. Can you elaborate on what that was?

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

Yeah, sure. We took a provision in the fourth quarter for one-time payments to reimburse several administrative services only Clients for services that were provided on their behalf during 2024. These were one-time payments for services where we're the administrator, so it's not related to claims incurred by us, and therefore, there's no impact to dental loss ratios or the insurance experience. There was no negative impact to members or providers. Rather, this was isolated and specific to the self-funded Clients themselves. The provision reflects our best estimate of the amount, and we're addressing the issue and don't expect it to recur.

Doug Young - *Desjardins Securities - Analyst*

And what does it relate to? It's still not clear to me as to why the payment was made. I guess, it doesn't impact the loss ratios or anything like that. Is that reserved? Yeah, I'm just curious as to what it relates to.

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

Yeah, some of our business is administrative services only, where we're acting as the administrator or TPA, where we pay claims on behalf of the sponsor, and we paid some more claims in certain situations than it turns out we should have. So we're correcting that with the Client to make sure that we take care of our Clients and put the issue behind us.

Doug Young - *Desjardins Securities - Analyst*

Okay. Appreciate the color. Thank you.

Operator

Nick Lu, Evercore.

Nick Lu - *Evercore Group L.L.C. - Analyst*

Hi. Good morning. Thanks for taking the question. The first one is, again, on medical stop-loss. I'm just wondering what's the level of medical cost trend you are building in for the rate increases, and not less so on the first dollar but more so where Sun Life comes in. And where do you see that impact your total top-line premium for the year? Thank you.

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

Okay. So medical trend overall, including for core health insurance and the overall health system, is at an elevated level compared to where it's been for the past several years. We are now pegging that rate at about 8%. That's the core rate.

However, the way stop-loss works, because of the high attachment points, there's a leveraging effect. So the effective trend for large claims, it's just the math of it, is about typically double the core rate of trend. So that would mean the trend on our business is about 16%. And that will impact our revenue going forward, obviously, in a positive way. And that includes the additional 2% that I've mentioned a couple of times that we believe we need to add to our pricing in order to get to that 16%.

Nick Lu - *Evercore Group L.L.C. - Analyst*

Thank you. And my follow-up is, in the U.S., you also called out some unfavourable in disability. So I wanted to see if that's relative to the favourable recent trends, or do you see it back to pre-pandemic level? And what do you guys see out there that makes you guys decide to take a step back in Employee Benefit sales? Thank you.

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

Yeah. So there was a little bit of negative morbidity and disability in the fourth quarter. But if you look at the entire year, the experience was actually very good. So I would view that as more of quarter-to-quarter volatility than anything else.

And disability experience is really not directly impacted by medical trend or medical experience. We've actually seen a number of years of improving disability experience. Fewer people are ending up filing for disability, and more people are going back to work. We also think there's been some impact from remote work. About half of the workforce is in jobs where remote work is a possibility, and that's enabling people to stay at work in ways that weren't possible before.

So we're in a period of time where disability incidence has actually been dropping as well as successful return to work has been increasing. So we're actually in a time of very good and steadily improving disability experience.

Nick Lu - *Evercore Group L.L.C. - Analyst*

Great. Thank you.

Operator

Paul Holden, CIBC.

Paul Holden - *CIBC World Markets - Analyst*

Thanks. Good morning. Sorry, Dan, I'm going to continue with your first question. I just want to understand if there's any common drivers or factors behind those large claims that hit the Q4, and you did mention in your answer some other underwriting changes you're making beyond price. So I'm wondering if there's some common factors that you can address in terms of how you're underwriting stop-loss beyond price.

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

Yeah. No, this is a great question, and we've been doing a tremendous amount in the way of analytics to understand what the drivers are. And we see three drivers of the increase in severity. One is, unfortunately, more advanced cancer cases. There's a couple of aspects to that.

One, we do believe that during COVID as people did not seek routine medical care, including screenings, that unfortunately means we're now seeing several years later the impact of that with people having been diagnosed later in the course of their illness and the illnesses as a result are somewhat more severe. Also related to that, there are a number of new cancer drugs that are very promising but also very expensive, and we have seen some elevation in the use of those drugs.

The second issue is a pretty significant increase in premature births and neonatal care, which obviously can trigger stop-loss thresholds. There was just a report actually published last week that showed that the number of births in the US rose 4% last year versus the prior year, so there's actually more births. Also, the age of parents continues to rise. The use of tools like in vitro fertilization continues to rise, and all of those things contribute to more premature births and neonatal intensive care as well. So that's really the second category.

And the third driving factor is hospitals are increasing prices. Now, obviously the core health insurers who are underlying all of this negotiate very hard with hospitals, but we are seeing hospitals being successful recently in raising the cost of inpatient care. Some of that is the post-COVID impact.

You've probably read a lot of hospitals and large hospital systems are suffering financially as the federal government subsidies and supports that existed during COVID have worn off. So one of the ways that they are addressing that, and also that they've built back to pre-COVID capacity, has been to raise prices. So those are three factors we think are primarily driving the severity, and those factors are likely persistent.

Paul Holden - *CIBC World Markets - Analyst*

Got it. Thanks for that. All right. Why don't we give you a break, Dan? I want to ask Tim a question regarding expenses. So earlier in 2024, announced I think it was $200 million of planned expense savings. I'm wondering how much of that came through in the quarter, maybe how much has been achieved to date. Where can we see that in the DOE, and how much additional should be realized in 2025?

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

Hi, Doug. Thanks for the question. So on our expense efficiency program, we've made great progress on that program overall, and in the fourth quarter, we achieved our target 40% efficiencies for the full year. So it was $82 million of savings that came through for a full year, so that's just modestly ahead of where we thought we would be.

Part of the challenge, as we signaled at the beginning of the program, and it's part a factor of IFRS 17, is it's difficult to see where expenses come through because they come through a different category. So on your question of where this is showing up, almost 40% of that's coming through net insurance service results, and then the bulk of the rest coming through other expense lines. This is non-attributable items.

And then when you think about from a geography perspective, almost half of that's coming from the U.S., and in particular in the Dental businesses, as we've been taking a lot of expense actions there. 20% is coming from Canada, and the remaining 30% would be in the corporate segment. These actions, like we had signaled, most of the savings are really coming from those geographies, but a little more than half are FTE-related. So this is both an FTE reduction that has already occurred, but also through attrition.

And then 20% of savings will then come through automation, and that's really what we look ahead at 2025. So we expect the remainder of the savings under the program to hit the full $200 million. We'll have 80% of that total efficiencies by the end of the year, and we're on track with that expectation. But it'll be difficult to see that through the various lines, so we can just report on a regular basis just in terms of where we are in that progress.

Paul Holden - *CIBC World Markets - Analyst*

Okay. And just last question and follow-up to that one. Will that be a net benefit to earnings, or is this really more of a story of finding cost savings to reinvest in investments, whether it's technology or growth initiatives or otherwise?

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

Yeah, it's a bit of both. So we are seeing it come through the bottom line, but we are investing in technology and digital and AI like we covered at our Investor Day. And I think the best way to think about this is this is embedded in our growth objectives, in our medium-term objectives.

So we really look at the overall earnings growth rate targets by each one of our business groups, and this program is helping to support underpin those growth rates. And we've been pleased with the progress, and expenses continues to be a focus really because we do need to continue to invest in the businesses, and we want to make sure that we're generating positive operating leverage.

Paul Holden - *CIBC World Markets - Analyst*

Got it. Okay. That's it for me. Thank you.

Operator

Mario Mendonca, TD Securities.

Mario Mendonca - *TD Cowen - Analyst*

Good afternoon. Dan, a question for you, but this has nothing to do with stop-loss. It does have to do with Medicaid. There's themes and theories around what a U.S. administration will do to reduce expenses, and there are certain sacred cows out there like Social Security and Medicare, but Medicaid keeps coming up as one of those areas where this new administration may cut expenses. Can you talk about Sun Life's overall exposure to Medicaid? What would happen if Medicaid rolls really do come under pressure over the next couple of years?

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

Yeah. Mario, so we have about $2 billion of Medicaid business just in round figures. It is obviously a very big part of our dental business, and in a business where a market we're very happy to serve and have done very well in over a longer period of time, including the DentaQuest history.

I think the best way to think about that is probably to look at the proposal that was loaded in the House of Representatives yesterday, and this is the first draft of the House Reconciliation Bill, not necessarily going to pass and, in fact, probably would change significantly from a first draft, but it did propose, at least in the aggregate, about a 10% cut to Medicaid funding over the next 10 years. Now, that, however, would not affect our business in that way because our business is predominantly kids, which is the core of the required Medicaid program under the law. Most cuts, if they did occur, would likely occur to adult coverage, and that's a relatively smaller part of our business.

And cuts might very well take the form of work requirements for able-bodied adults. And when you look through the way they would calculate something like that, actually most people would already meet those requirements, and so that change, for example, would have a fairly de minimis impact on us. It's impossible to predict exactly what's going to happen, but the impact on our business would likely be some small subset of the 10% cut that is being proposed. Dental, and particularly benefits for kids, are really viewed as effectively sacred cows as well.

Mario Mendonca - *TD Cowen - Analyst*

I see. And Dental is not the only -- that's not what makes up the $2 billion. Presumably there's other Medicaid beyond dental at Sun Life.

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

No, not in Sun Life. Sun Life -- the only participation we have in Medicaid is through the dental benefits.

Mario Mendonca - *TD Cowen - Analyst*

Okay, that's clear. And then if we could go back to Q3, your response to questions around stop-loss were a little bit more optimistic, commentary around Sun Life's conservative pricing. So I think something clearly surprised you in the last three months. Is it just a matter of the timing of when Sun Life gets information that a lot of new information arose in the last three months? Was there no way to have seen this sooner?

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

Yeah, I think -- so in the third quarter, what we were basing our assumptions on, and we were clear about that, was utilization. We were able to see the level of utilization because we do see, first of all, from claims that come in throughout the year, we get a sense of utilization -- in other words, the number of claims. And even from that early data we get from some of our TPA partners, we can see utilization.

So we did see utilization return to pre-COVID norms back earlier in the year, and it's been generally stabilized since then. What was a little surprising, and obviously you've seen it, everybody's had the same impact. If you've looked at the earnings reports of some of our peers, both in stop-loss and more broadly in health insurance, what was the thing that emerged in the fourth quarter is the severity of the claims. So not the number of claims, but the severity of the claims is something a little bit new in the experience.

And as I mentioned, we don't see the claims themselves, or most of the claims themselves, until the fourth quarter of a cohort and even some in the fifth quarter, meaning into the first quarter of the subsequent year. So I think that's what everyone saw in the fourth quarter was the severity.

Mario Mendonca - *TD Cowen - Analyst*

Yeah. I've just been quick to dismiss other companies' experience by saying things like, Sun Life's more conservative, Sun Life's better, Sun Life's got the expertise, better relationships. Presumably that's still true; it's just that things got particularly bad this quarter. I mean, is it still an appropriate thing to cite, Sun Life -- the quality of Sun Life's book is better?

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

Well, of course we think so. But yeah -- because I think we -- if you look at our experience and the way we handled it, it is different than what some of the peers are reporting. So I think for us, the severity of illnesses is not something we can necessarily control. Obviously, that's something that is occurring market-wide.

What we can control is pricing and underwriting. And our pricing was certainly much closer to the pin than that of our competitors. I think some of our competitors have been assuming low utilization from COVID would continue and other things. So you've heard competitors talking about having to put through just epic rate increases to get back to where they need to be versus the kind of numbers we're talking about.

So I think it's both. It's healthcare severity, which is an exogenous factor, but then it's pricing and underwriting, where I do agree with you. I think we shine compared to the competition.

Mario Mendonca - *TD Cowen - Analyst*

Okay, that's helpful. And then finally, Tim, you made a point about trying to address the volatility from the tax-exempt income, that $234 million effect this quarter. To address that volatility, it's been my experience that to address volatility, there is a price to this. Is the price that we might see a marginally higher tax rate, effective tax rate at Sun Life? What is the consequence of reducing the volatility?

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

Thanks, Mario. I mean, first of all, this is a program that we've been operating for decades. It's part of the tax code and tax regime. And what I would say, at the end of each year, we determine what assets are designated to support our Canadian business for tax purposes, and then the remaining assets and swaps are considered tax-exempt.

So to correct this, it's really around how we look at our asset designation strategy. And it was the large movements on the swaps and the assets that really generated that loss. So you'd expect that we would be able to have a tighter match between the tax and pre-tax income on these assets. And that will smooth out the volatility so you wouldn't see this distortion. But it would have the effect of a modest reduction in the overall tax benefit that we've been experiencing over the prior years because we didn't have those losses coming through.

Mario Mendonca - *TD Cowen - Analyst*

So modestly higher effective tax rate, but nothing that would really cause us to worry about?

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

Correct.

Kevin Strain - *Sun Life - President & Chief Executive Officer*

I think that's right, Mario. Modestly higher, but it wouldn't take away from our medium-term objectives for any scope.

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

Yeah, we're still committed to that.

Mario Mendonca - *TD Cowen - Analyst*

For sure. I understand. I just figured there would be at least some effect. Thank you. Appreciate it.

Operator

Lemar Persaud, Cormark Securities.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Yeah, thanks. My first question is for Dan on stop-loss here. I hear what you're saying on severity coming in higher than anticipated in Q4, and certainly you guys weren't alone on that front. However, what I am a little bit confused on, I'm hoping you can help me think through, is the comment that you started increasing pricing in mid-2024, so presumably you knew that, I guess, claims were moving higher.

So then why the surprise on the claims front in Q4? I'm just trying to square that up because it sounds like you moved pricing up because you knew there was going to be an issue here, but then we still had the big surprise in Q4. So why would that not have been reserved for earlier? I'm just trying to understand why the surprise here. Hopefully that makes sense.

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

Yeah, it does. Early in the year, remember, we saw utilization recover fully back to pre-COVID norm, so our pricing increases in the middle of the year were related to fully reflecting that utilization level, but not necessarily the increased severity that we saw emerge in the fourth quarter. So that's why there's really two separate issues. We took care of the first one first, and now we have a little bit more to do to fully take care of severity.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay, I understand. Then just moving over to a different type of question here, maybe for Manjit, can you just give some additional details on this impairment charge on bancassurance in Vietnam? I guess, the performance in the country has been challenged for some time, I think even dating back to 2023, so I'm just wondering about the timing of the impairment in 2024.

And then could you kind of flesh out some detail on what the regulatory changes were? Was this related to changes related to bundling? And does it feel like there could be more regulatory changes that could impact your business there?

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

All right. Good morning, Lemar. So let's give a bit of background and then get to your questions as well.

So as you know, bancassurance is an important distribution channel for us and other market players in Asia. And in Vietnam, we entered into two bancassurance partnerships, the first one with TPBank in 2020 and then with ACB Bank in 2021. They're both 15-year partnerships.

And as you said, we've noticed, and as we and other market participants have noted previously, the insurance industry in Vietnam has been experiencing some significant weakness related to some inappropriate selling practices from some of the insurance companies in the market. Overall, bancassurance sales in the market have declined by over 60% over the past two years. Now, while Sun Life has performed better than that, our sales have also declined as well.

So what we see right now is we think that has bottomed, and we're starting to see some signs of re-emerging growth. But as we looked at it this quarter and we factored all that stuff in, and we have to then take a look at what the value of the intangible is, we reflected the trends I spoke about earlier, and that's what led to the write down.

In terms of your second question, regulation, I mean, I think there is ongoing discussions with regulators. They are looking at some of the commission structures that banks enjoy as part of these arrangements. So we'll see what comes out of that.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay, just the last point here on the timing. Why wasn't there, like, an impairment even back in 2023? Because I think the business was challenged that time as well, and you guys probably run the impairment test annually. Am I wrong on that?

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

Yeah, we do run it annually, but there is no bright-line test, Lemar. As I mentioned earlier, these are 15-year agreements. You're making long-term assumptions. And we had to kind of let the facts emerge, and I think that's kind of what's been happening the last few quarters.

Lemar Persaud - *Cormark Securities Inc. - Analyst*

Okay. Thank you.

Operator

Alex Scott, Barclays.

Alex Scott - *Barclays - Analyst*

Hi. Good morning. I had one on stop-loss, so bear with me here. Follow-up to Tom's question earlier, the 1/1/24 book, could you disclose to us what percentage of your incurred loss at this point is paid? I'm just trying to understand if that's, like, pretty darn fully developed at this point, or if there's still information that we need to be concerned about coming in over the next quarter or so.

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

Yeah, that's a great question. At the end of the fourth quarter, we've got about 70% of the experience on that cohort. And then by the end of the first quarter, I think it gets to around 90%, so it's pretty much done or just about done by the end of the first quarter. But yeah, there is some more in the first quarter that comes in.

Alex Scott - *Barclays - Analyst*

Got it. Okay. And then for my follow-up question, I just wanted to see if you could give us a little more color around flow expectations, the outlook for net flows, both in MFS and SLC.

Kevin Strain - *Sun Life - President & Chief Executive Officer*

Ted, do you want to take MFS first, and then Steve can take SLC here in the room?

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

Sure. Good morning, everyone. I think the overarching comment I'd make about flow expectations is that on a given quarter or even year, predictability is going to be difficult.

Certainly on a trailing basis, and particularly in the quarter, it was not a good quarter for flows. On the retail side, a little bit simpler and more historically consistent explanation in that we're holding or gaining share in a market that is in outflows. We're confident both in the long term of the market and in our ability to maintain and grow our share and return to positive flows when market dynamics normalize.

On the institutional side, which was the delta in the quarter, a number of things came together in the quarter to the negative side that is a rare confluence in terms of a number of large losses in our strategies that are more meaningfully underweight to the Mag 7. We've been working through a lot of these, and they came together in the quarter.

So as we look forward, we're not going to make predictions on flows, particularly those institutional dynamics. We would expect to get better over time, and overall we would expect to return to positive flows over the medium to long-term as we execute on our various growth strategies.

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

Hi, it's Steve Peacher. As it relates to SLC, one point I would make is that, and you saw it this quarter, our quarterly flows will be a function and will move around based on when we have fund closings. And so this past quarter we had a number of fund closings, which really helped us. Sometimes you don't have those all come together in one quarter.

But in general, we think in a lot of these asset classes, the trends are in our favor. Certainly you're seeing increased demand for private credit. We have a number of funds in the market, so that we think will help us over the course of this year. As I mentioned earlier, we're starting to see increased demand for real estate after kind of hitting a trough in 2023. We see steady demand for fixed income, and I think we'll see a pickup for infrastructure. So I don't have an exact number to give you, but we would expect fundraising to be higher in the coming year than it was in '24.

Alex Scott - *Barclays - Analyst*

Thank you.

Operator

Darko Mihelic, RBC Capital Markets.

Darko Mihelic - *RBC Capital Markets - Analyst*

Hi. Thank you. Good morning. Dan, I just didn't understand your answer to Meny's question on dental earnings. You guys had committed to US$100 million for 2025. Is that still on the table? Is that still what you're committed to earning?

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

Yes, it is. And we're pleased with the progress we made in the fourth quarter there.

Darko Mihelic - *RBC Capital Markets - Analyst*

Okay, thank you. And second question, real quick, Dan, also on the stop-loss. You said that you've achieved 14% on average price increase, plus another 2%. Is all of this happening without any plan loss? And what is your expectation on that front?

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

Sorry, without any what loss?

Darko Mihelic - *RBC Capital Markets - Analyst*

Any loss of customers or anything.

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

Yeah. So as of 1/1, the book of business is about 5% larger than it was 1/1 of last year. So we've actually grown the book, modestly, of course. Each year, there's substantial turnover in the business. Remember, it's a one-year cycle. Typically, all the business goes out to bid annually.

So we have to sell enough to make up for the cases that move and then get some growth on top of that. But we're actually pleased in the current environment with a 5% level of growth. You've obviously seen some of our competitors report something quite, quite different than that.

And that's at the same time that we believe we're taking a responsible approach to pricing. We were somewhat surprised in the fall to see still aggressive pricing in the market in light of all of these different factors. But we do see that changing now. We think market behavior in 2025 is going to be quite different and actually may be a good opportunity for us.

Darko Mihelic - *RBC Capital Markets - Analyst*

And that 5%, how would that compare to like a typical year for you in that business?

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

It is smaller. In recent years we've generally been around a double-digit increase. And that's reflective of our more conservative pricing approach than some of our competitors.

Darko Mihelic - *RBC Capital Markets - Analyst*

Great. Thank you.

Operator

Tom MacKinnon, BMO Capital Markets.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Yeah, a question about the capital generation, $350 million when you add the dividend, that's in around 85% of the underlying earnings. That's an organic number. Do we know what the actual was? It looks like just when you factor in the Infrared purchase that happened in the quarter or some of the outflow for infrared buy-in in the quarter, and then some of the movements as a result of the mark-to-market stuff.

Even on your LICAT, it looks like there would have been at least $300 million to $400 million there. And then taken in 90% of MFS's earnings or so. I mean, I can get a number actually higher than on an actual basis, not an organic basis, that might be higher than the $350 million. Any comments?

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

Yeah, it's Tim. Thanks, Tom. I think your math is probably correct. Our organic generation after dividends was $350 million in the quarter, and that's really within the range of our target that we communicated. We expect to be around 30% -- 30% to 40%. So that's really right in there.

On underlying income perspective, that was down. If we look at just quarter over quarter, that was just down modestly from the prior quarter. And our dividends are up because of our increase in dividends. Our payout ratio was roughly around 50% at the top end of our range.

So on the organic components of that, we look at things like our new business CSM, that was strong. But some of our sales were a little bit more capital intensive than prior periods. That's in part why that's come down.

And just ongoing investments in our business, you referenced a couple examples. So overall, the organic capital generation before dividends was around $840 million. And then after our dividends came in at the $350 million and within lines of our expectations. And when we communicated this as a metric, we did say that there would be volatility quarter to quarter. It's going to be a function of the earnings, the dividends, and then how much the CSM growth. Those are really the largest contributors to that.

Tom MacKinnon - *BMO Capital Markets - Analyst*

My question was really on -- that's an organic number and it takes out any kind of noise related to market impacts. But even if I look at the -- so I'm trying to get what's the capital generated not organically, actually, I'll just use that term. But if you take in generally at least 90% of the MFS earnings and take in somewhere in around the movement in the LICAT ratio that you have at SLF, or maybe just strictly the movement in the LICAT ratio at SLF, you can probably get a number in around $400 million-ish or something like that. Do you actually look at the capital generated actually versus organically? And was it significantly different in the quarter?

Kevin Morrissey - *Sun Life - Chief Actuary & Senior Vice President*

Yeah. Hi, Tom. It's Kevin Morrissey. I'll take that one. Your math's right on that. We do look at actual -- the actual capital generation was positive, and it is in the range of $300 million to $400 million. The share buyback measurement actions in the quarter was about minus 1.5. And as you know, the LICAT ratio stayed flat over the quarter, so the actual was positive.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. So it's interesting, despite the fact that the reported number was a lot lower than what people were anticipating, the actual capital that you would have generated, not organically, but actually, was really not impaired to any extent. Is that a proper takeaway?

Kevin Morrissey - *Sun Life - Chief Actuary & Senior Vice President*

Yeah, that is right, Tom. A couple of the large one-time items that we had this quarter were not impacted -- did not impact the capital position at all, both the tax issue that we talked about, as well as the intangible write-down in Vietnam. Both of those totaled about $400 million. Neither of those are included in the LICAT ratio, so they had no impact on the capital this quarter.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. Thanks for that.

Kevin Strain - *Sun Life - President & Chief Executive Officer*

Yeah. Tom, it's Kevin, and I might just add to that that you're absolutely right. The capital and the cash generated remains a strong story. We aren't surprised by the questions or even the tone of the questions, but the underlying fundamentals remain strong.

If you look at Canada, Asia, and SLC, we've had good top and bottom-line momentum and strong strategies to continue to deliver results, and you see cash flow coming there and earnings and capital generation. If you look at MFS as an at-scale end-game player, their earnings and margins were strong, and we think they're doing the right things for the future, and they cash flow really nicely at MFS.

And the U.S. had a tough quarter, but it's a capital-light, high-growth business, and it does have a bit more volatility. We have scale there. We have the experience. The volatility and claims experience, both solely in stop-loss and Dental, is consistent with what the industry is seeing, so we continue to have confidence in our strategies in the U.S. and our ability to deliver, so you did see a tough quarter, and we're not trying to walk that back, and I think we answered the questions. But I think you ended on a really good point that this capital generation and overall our strategy remains strong, and the cash generation remains strong.

Tom MacKinnon - *BMO Capital Markets - Analyst*

And your opening comments about giving strong capital will continue to execute on share buybacks within your NCIB. Can you give a little bit more color there?

Kevin Strain - *Sun Life - President & Chief Executive Officer*

Yeah, we have room on the current NCIB, and I think you'll see a strong buyer back of our shares given the change we saw today.

Tom MacKinnon - *BMO Capital Markets - Analyst*

Okay. Thanks.

Operator

We have no further questions at this time, and I'll turn things back over to Mr. Poon for closing remarks.

Paul Poon - *Sun Life - Assistant Vice President, Investor Relations*

Thank you, operator. This concludes today's call. A replay of the call will be available on the Investor Relations section on 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.
