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Sun Life Financial, Inc. (SLF)

Q1 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, ladies and gentlemen. My name is Mike, and I will be your conference operator today. At this time, I would like to welcome everyone to the Sun Life Financial Q1 2019 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 Greg Dilworth, VP of Investor Relations. Please go ahead, Mr. Dilworth.

Gregory A. Dilworth

Vice President-Investor Relations, Sun Life Financial, Inc.

Thank you, Mike, and good morning, everyone. Welcome to Sun Life Financial's earnings conference call for the first quarter of 2019. 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 first 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 this 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 this afternoon'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 Dean.

Dean A. Connor

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

Thanks, Greg and good afternoon, everyone. Turning to slide 4, the company reported underlying earnings of CAD 717 million, up 9% over the first quarter of last year, excluding the impact of interest on par seed capital in Q1 of 2018. Underlying return on equity was 13.3% for the quarter. And yesterday, we announced the dividend increase of 5%, reflecting our continued earnings momentum.

With a LICAT ratio of 145% at SLF and at 21.1% leverage ratio, capital remains a key strength for Sun Life as we adhere to our disciplined approach to capital allocation, including investments to grow our business organically and the repurchase of shares in the quarter. For the first time in our history, we reached CAD 1 trillion of assets under management. It took us 147 years to reach the first CAD 500 billion of AUM and just seven years to add the next CAD 500 billion.

Our clients and AUM have benefited from a prolonged bull market and the positive investment returns we have generated for clients. The growth in AUM also reflects an important aspect of our four pillar strategy in which we favor businesses that have built-in growth; whether it be through equity markets, healthcare trend or the demographics in Asia. Insurance sales in the quarter were up 17% over the prior year with double-digit growth in both individual insurance and Group Benefits.

Wealth sales were down 10%, primarily driven by lower sales in our Canadian and Asian businesses. Importantly, our value of new business, VNB, was up 14% percent compared to the first quarter of 2018 from higher individual life and group insurance sales and improved pricing in the U.S. Across our businesses, we continue to drive outcomes that reflect our purpose and make it easier for clients to do business with us.

In Canada, we collaborated with Rise People Inc. to launch an integrated human resources platform that simplifies benefit administration for employers. This quarter, we became the first major benefits carrier to offer gender affirmation coverage in Canada, reflecting our efforts to evolve and diversify our health plans and to help meet the health needs of all Canadians.

This is yet another example of innovation and industry first at Sun Life, including virtual healthcare coverage and digital providers search capabilities with user ratings. And we continue to engage clients digitally. Our digital capabilities helped us to reach over 1.5 million clients in Canada in the first quarter. It's these digital efforts that in part helped drive in-plan wealth deposits higher by 16% over the past 12 months.

Notwithstanding a challenging RRSP season for the Canadian industry, Sun Life Global Investments, our Canadian mutual fund company generated CAD 632 million in net inflows and crossed the CAD 25 billion mark in AUM, a 17% increase over the prior year.

Turning to the U.S., we increased our Group Benefits after-tax profit margin to 7.9% on a trailing 12-month basis, reflecting strong medical stop-loss experience this quarter. Sales across our Group Benefits business were up by 11% and our business in-force increased by 7% compared to Q1 of 2018.

Our U.S. Group Benefits business recently launched the Sun Life + Maxwell Health digital health platform. The platform provides an intuitive digital client experience that delivers a seamless integration of all benefit plans, focusing on smaller and mid-sized employers many of whom don't currently have a benefits enrollment platform. Maxwell Health simplifies the benefits enrollment process for clients, helps close coverage gaps and with Sun Life products on the platform, we aim to increase the number of products per client. Early indications are that employers using the tool will purchase multiple Sun Life products, which is one of our objectives.

In Asset Management, we delivered strong investment performance across the global platform. Sun Life Investment Management generated positive net flows of CAD 1.3 billion in the quarter, assets under management ended the quarter at CAD 67 billion, up 12% over the prior year.

With the upcoming addition of GreenOak, our assets will grow to CAD 80 billion and we'll be able to provide clients with real estate solutions that have a wider range of returns and risk and extend our reach beyond North America to include Europe and Asia.

MFS ended the quarter with assets under management of $473 billion. Net outflows of $5.9 billion were improved from last quarter and came primarily on the institutional side from rebalancing and de-risking activities. Retail net flows were positive, driven by U.S. retail, where MFS had record quarterly gross sales. 94%, 85% and 82% of MFS's U.S. retail fund assets were in the top half of their Lipper categories based on 10, five and three-year periods respectively.

MFS continued to show well in the annual Barron's ranking of U.S. mutual fund families for long-term performance where they ranked in the top 10 for both 10- and five-year performance in nine out of the last 10 years.

In Asia, insurance sales in our seven local markets were up 24% over the prior year. Sales benefited from growth in the number of advisors in a number of our countries like the Philippines and bancassurance distribution in India where we continue to expand our presence in HDFC's branch network. Insurance sales were down in our International high-net worth segment as we continue to adjust to changing product preferences with new product launches. Across Asia, we're working hard to digitize the client experience and make it seamless for clients to access Sun Life when they want, where they want and how they want. In Hong Kong, Bowtie Life Insurance Company, a company we've helped launch unveiled its first full end-to-end digital voluntary health insurance product. Through Bowtie, everything can be done online: From initial application to online underwriting to making a claim. No medical examinations or paper forms are required and the application process is shortened from three days to as fast as 10 minutes.

Our commitment to making it easier to do business with us shone brightly this quarter with awards in Hong Kong and Indonesia for our My Sun Life mobile application which recognized our innovation, service and digitization of the client experience. And in Hong Kong, our Mandatory Provident Fund business was also recognized, receiving 12 awards at the 2019 MPF awards.

Overall, we're off to a positive start in 2019 and we have good overall momentum. Our focus on clients is driving outcomes for our businesses and we're executing on growth right across the company. We're excited about 2019 as we continue to invest in new business models, new products, new ideas to drive growth across all four pillars.

And with that, I'll now turn the call over to Kevin Strain, who will take us through the financials.

Kevin D. Strain

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

Thanks, Dean, and good afternoon, everyone. Turning to slide 6, we take a look at the financial results from the first quarter of 2019. We've got a good start to the year with strong profitability, double-digit value of new business growth and continued financial strength.

Reported net income of CAD 623 million was down from CAD 669 million in the prior year. Prior-year results included the impact of interest on par seed capital in Canada and the U.S.'s results, which contributed CAD 110 million to earnings in Q1 2018. Reported net income this quarter reflected market-related impacts which reduced earnings by CAD 69 million after-tax.

Underlying earnings were CAD 717 million, down from CAD 770 million in the prior year. Excluding the interest on par seed capital, underlying earnings are up 9%, or 11% on an earnings per share basis. Compared to prior year, underlying earnings also included favorable experience items including investing activity gains, mortality, morbidity, lapse and policyholder behavior and expense experience. This was partially offset by unfavorable credit experience related to downgrades from indirect exposure to a single name in the U.S. utilities sector, which I will discuss in more detail in a few minutes. Our underlying ROE of 13.3% was within the target range for our medium-term objective of 12% to 14%. We maintained a strong capital position with a LICAT ratio of 145% for Sun Life Financial, Inc. or SLF, and 132% for Sun Life Assurance Company of Canada. The higher ratio at the SLF level reflects the excess cash of $2.6 billion held by SLF.

Our leverage ratio of 21.1% remains below our long-term target of 25% is another potential source of capital for capital deployment. On May 13, we will redeem CAD 250 million in subordinated debentures which will reduce our leverage ratio by approximately 70 basis point to 20.4%. We saw good growth in our book value per share this quarter, up 7% over the prior year reflecting income growth over the past year as well as the impact of accumulated other comprehensive income, partially offset by payments of common shared dividends. We repurchased approximately 4 million common shares for $200 million in the first quarter of 2019.

With additional shares repurchased in the month of April, we have now repurchased all 14 million shares under our current normal course issuer bid. Yesterday, we announced our intent to amend our existing normal course issuer bid to increase the number of shares that we can repurchase by 4 million. We also announced the 5% increase to our common share dividend to CAD 0.525 per share.

Turn to slide 7, we provide details of underlying and reported net income by business group for the quarter. In Canada, underlying net income of CAD 237 million was down from the prior year, reflecting CAD 75 million of interest on par seed capital recognized in Q1 2018 and unfavorable credit experience in the first quarter of 2019. This was partially offset by strong business growth across all business units as well as favorable investing activity gains, mortality and expense experience. Excluding the impact of par seed capital, underlying earnings in Canada grew by 8%.

In the U.S., underlying net income was up 16% from the first quarter of 2018, reflecting favorable mortality, morbidity and lapse and policyholder behavior experience, partially offset by lower investing activity gains and unfavorable credit experience. The prior year also benefited from CAD 35 million of interest on par seed capital. Our Group Benefits after-tax profit margin was 7.9% on a trailing 12-month basis in the quarter compared to 5.6% in the prior year driven by continued strong results in our stop-loss business.

Asset Management underlying earnings were CAD 227 million, down slightly from the prior year. The impact of lower average net assets at MFS primarily as a result of equity market declines in the fourth quarter of 2018 was largely offset by favorable investment income, including returns on seed capital. MFS pre-tax net operating profit margin was 38% in-line with the prior year. Sun Life Investment Management generated underlying net income of CAD 4 million.

In Asia, underlying net income was down CAD 6 million from last year with growth in our core Asia businesses of 16%, offset by weakness in our International results, reflecting unfavorable credit and mortality experience and higher new business strain.

Turning to the next slide, slide 8, we provide details on our sources of earnings presentation. Expected profit of CAD 739 million was up CAD 5 million from the same period last year with business growth in Canada and in the U.S. stop-loss business, offset by the impact of lower average net assets at MFS. Excluding the impact on currency and the results of Asset Management, expected profit grew by 2% over the prior year. We had new business strain this quarter of CAD 11 million, reflecting highest strain in Asia as a result of lower sales in our International business segment.

Experience losses of CAD 96 million for the quarter primarily reflected net unfavorable market impacts, driven by interest rate movements in the quarter, partially offset by equity market increases. Credit, lapse and policyholder behavior and other experience also had an unfavorable impact which was partially offset by investment activity, mortality, morbidity and expense experience.

The unfavorable credit experience in the first quarter of 2019 includes CAD 57 million after-tax related to several renewable energy project in our corporate loan portfolio related to private fixed income investments or PFIs that have contract to sell power to Pacific Gas and Electric, PG&E.

Given the bankruptcy proceeding for PG&E, we downgraded these PFIs. These downgrades reduced Canadian results by CAD 29 million, Asia results by CAD 19 million mostly in the International segment with the remainder of the impact in the U.S. The downgrades were on internal ratings we have on these PFI investments and were driven by their role as suppliers of power to PG&E. There has been no impact on the cash flows for us on these investments.

Assumption changes were modestly negative at CAD 10 million in the quarter. Other, in our sources of earnings which amounted to a loss of CAD 29 million, includes the fair value adjustment on MFS's share-based awards, acquisition, integration and restructuring costs and the impact of certain hedges in SLF Canada that do not qualify for hedge accounting.

Earnings on surplus of CAD 125 million were CAD 32 million lower than the first quarter of last year, reflecting lower realized gains. Our effective tax rate on reported net income for the quarter was 11%, driven by market movements on investments with lower tax rates. On an underlying basis, our effective tax rate for the quarter was 17.8% and in-line with our expected range of 15% to 20%.

Slide 9 shows sales results across our insurance and wealth businesses. Total insurance sales of CAD 780 million, were up 17% or 16% on a constant currency basis compared to the first quarter of 2018. Insurance sales in Canada were up 22%, driven by large case sales in Group Benefits as well as higher individual insurance sales.

In the U.S., sales were up 11% in U.S. dollars as a result of higher sales and stop-loss. Asia individual insurance sales excluding International were up 24% in constant currency, with double-digit growth in six of our seven markets. Sales in Asia's International business segment were down from prior year, reflecting changing product preferences.

Total wealth sales of CAD 36 billion, were down 10% from the prior year or 13% on a constant currency basis. Wealth sales were primarily impacted by a weaker RRSP season in Canada, institutional sales which were lower in a few of our businesses including MFS and Defined Benefit Solutions in Canada. And in Asia, where we had lower money market sales in the Philippines and lower sales in our Indian Asset Management business, primarily driven by market volatility. Value of new business is up 14% to CAD 382 million, driven by strong insurance sales and improved pricing.

So to conclude, we had a good first quarter. We saw strong growth in earnings and EPS, after reflecting the impact of interest on par seed capital, strong growth in insurance sales and value of new business and a continuation of our strong capital generation.

With that, I'll turn the call over the Greg to begin the Q&A portion of the call.

Gregory A. Dilworth

Vice President-Investor Relations, Sun Life Financial, Inc.

Thanks Kevin. To help ensure that all of 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 to re-queue with any additional questions.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from Humphrey Lee from Dowling & Partners.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Good afternoon and thank you for taking my questions. My first question is related to the favorable expense experience in the quarter and I was just wondering if Kevin can provide some color in terms of was it a benefit of kind of more disciplined expense management that you highlighted at the Investor Day or was it just a timing of expenses? And if you can elaborate a little bit on the level of expense [ph] down (00:19:30) in the quarter that will be helpful.

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

A

Okay. Well, thanks Humphrey, I'll start and Kevin Morrissey, you may add some – it's Kevin Strain; Kevin Morrissey you may add some comments.

As we talked at our Investor Day, we've been working hard across the organization on expenses and as we called it bending the cost curve and on – if you reflect the impact of currency, take the impact of currency out, we were flat year-over-year in expenses. And for our controllable expenses, we had a moderate increase of 1%. At the same time, as we were working hard on controlling our expenses, we saw the business grow, both on the new business side and in the in-force which saw us adding allowables and the combination of those higher allowables and good work on managing the expenses resulted in the gain.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

So it sounds like it's more kind of the expense management that you talked about as opposed to timing?

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

A

I think it's – yeah, you're seeing a lot of good impacts of the expense management coming through.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Okay.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.

A

Yeah. Humphrey, it's Kevin Morrissey, and I'll just add you saw that we had CAD 11 million after-tax gain in the expense line. It is from the growth of the business and the expense management of both of those components. We would expect to see those to be volatile moving toward quarter-to-quarter and our outlook on that would probably be more around zero, but it was certainly a strong quarter.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Got it. And then shifting gears to U.S. Group Benefits, I think when you look at the overall strong sales and inflows premium growth in the business, especially in stop-loss. I was just wondering from a broader perspective, have you seen any kind of market expansion in the stop-loss market or are you just [indiscernible] (00:21:09) you and maybe some companies are taking market share?

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.

A

Well, Humphrey, this is Dan Fishbein. The stop-loss market continues to grow for a few different reasons. First of all, the size of stop-loss premiums grow with medical cost trend, so that's about 6% to 8% a year. Also, more employers are self-insuring in recent years. We get about 0.5% growth in the proportion of employers that are self-insuring versus fully insured as a percentage of the total market each year and then we are also taking share. There is no question we're taking share from competitors, so our very good growth is fueled by all three of those factors.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

So do you feel like and at the same time you have very favorable underwriting results. Do you feel like that would potentially leading to any kind of downward pressure on pricing or just the fact that the medical cost trend and the level of additional employers looking to self-insure will more than offset that pressure?

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.

A

Well, historically if you look back over the past 10 years or so, the stop-loss business has been somewhat cyclical. There have been times of expanding margins and then increasing competition that's led to compressing margins. We're not seeing that phenomenon right now, although we've been in the good part of the cycle for about two-and-a-half years now.

From our own perspective, what we can say is that we're still selling and renewing our business at or above, our target is rising. So, at the moment, we're not seeing irrational or aggressive market behavior.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC

Q

Thank you so much.

Operator: Your next question comes from the Meny Grauman from Cormark Securities.

Meny Grauman
Analyst, Cormark Securities

Q

Hi, good afternoon. I just wanted to start with the Asia segment. It was noted that there was a favorable joint venture experience in that segment. So I'm just wondering if you could provide a little bit more detail of what's driving that experience, what geographies, is this primarily bancassurance-driven? Thanks.

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

A

We'll ask Claude Accum to take that call or that question, sorry.

Claude A. Accum
President-Sun Life Financial Asia, Sun Life Financial, Inc.

A

Hey, Meny. It's Claude Accum here. I'm not sure which particular item you're seeing. I actually see joint ventures experience going the other direction. Can you give me where you get your question from?

Meny Grauman
Analyst, Cormark Securities

Q

Just in the MD&A, I thought there was a reference to positive joint venture experience in Asia, but let me see. Anyway, as a follow-up...

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

A

Meny, it's Kevin. So we have two large joint ventures. Of course, we have a joint venture in Malaysia which we manage, but come through the joint venture piece which is India and China. We did have some gains in China in that segment. But overall I think Claude is talking about sort of you're focusing on one piece and Claude is talking about the overall joint venture experience. So the two do tie in, but just that's how they do.

Meny Grauman
Analyst, Cormark Securities

Q

Okay. And just moving on just in terms of MFS, I'm just wondering about that institutional flow and if there's anything unusual there that you would highlight or are we just seeing the trends that we've been talking about for a while just continuing or if there's anything, just that you would call out in the quarter in terms of influencing those flows?

Michael W. Roberge
Chief Executive Officer, MFS Investment Management

A

Good afternoon, Meny. This is Michael Roberge. Yeah, it really is the same themes that we discussed, de-risking, rebalancing. It's not been performance-related and so the same themes that we've talked about over a number of quarters were true in Q1 as well.

Meny Grauman
Analyst, Cormark Securities

Q

Okay. Thank you.

Operator: Your next question comes from Gabriel Dechaine from National Bank Financial.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.

Q

Good afternoon. First question is on the buybacks. And, yeah, just trying to figure out what the – your – what that says about your M&A ambitions. I know you're notionally looking at something in Asia or bulking up the U.S.

group business. Does the decision upsize the buyback mean there's nothing really imminent on any of those files or is it really just an expression that overall you could do that plus accommodate more buybacks?

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

Gabriel, it's Dean. It's the latter. So we have as you know a very strong balance sheet, lots of excess cash at the holdco, lots of leverage capability and so this extension of the buyback, which is not big in dollar terms, just gives us some more flexibility as we run through to the end of this particular NCIB period. We're pleased that we've been able to fully execute on the previous NCIB that we launched last August, actually here on that over the first nine months and this just gives us a little bit more flexibility. As you know, we're getting close to closing soon on the GreenOak transaction. That will be a deployment around CAD 200 million when that transaction closes. So we've got the capital to do things like that to give us the flexibility to do more NCIB, but also to do acquisitions – small, medium and large.

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

I might just add to that Gabriel as we discussed at the Investor Day, the company is generating after dividends CAD 800 million in capital each year and we've been running in the buyback close to CAD 200 million a quarter which is kind of keeping us at the excess capital position we've been at.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. And is there a heat meter on the M&A file that I can see anywhere? No. I'm joking but if you answer that that will be great.

My real second question. Now, I tend to kind of disregard the macro factors, I shouldn't probably but this quarter the interest rate impact is pretty large – larger than what I did get to using your sensitivity guidance. And I'm just wondering if there's an element of the flat yield curve we saw during the quarter inverted for a bit that may have been a factor there or perhaps maybe another explanation as to why it was large and if it's just – Gabe, your math is wrong then that's fine.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

Gabriel, it's Kevin Morrissey, thanks for that question. No, you are right that it was larger than would be implied by our sensitivity which are very simple, stylized sensitivities based on parallel movement in the yield curves. And as you noted, we had a bit of a flattening in the yield curve and for Sun Life that does cause us some larger losses. So, probably about 60% of the incremental loss would have been from flattening of the yield curve.

We also had some losses related to derivatives that we use to hedge some of the interest rate risk and the market implied volatility changed a bit which reduced the value of those derivatives. So that's something again that wouldn't be in the simple sensitivities we disclosed.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

What's that 60% of the deviation or...

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

So if you look at the markets broadly, they were down about 30 basis points, so based on our sensitivity that would imply about $60 million drop. We saw about twice that, so the variance would have been about $60 million incremental loss, so $35 million of ballpark additional loss from the flattening of the yield curve.

Gabriel Dechaine
Analyst, National Bank Financial, Inc.
Q

Okay. Great. Thanks a lot.

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

Doug Young
Analyst, Desjardins Capital Markets
Q

Good afternoon. Just maybe starting Kevin with you on the lapse side, it's – obviously, you made some adjustments from the actuarial side recently, but it keeps persistently being negative. I just wanted to get an update what it was this quarter and what you're seeing?

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

Doug, thanks. It's Kevin Morrissey again. So on the lapse, what we did see in the quarter, we saw a loss of CAD 8 million. It was from various sources across a number of business groups, all quite small and that's a relatively benign.

So as you've noted we had some historically large losses related to the U.S. in-force business. We took significant strengthening in Q3 and we've been pleased with the results that have been very small gains and losses since then. So we're very satisfied with the action that we took relative to those historic losses and we see the result this quarter, the small loss being kind of in the range of normal volatility.

Doug Young
Analyst, Desjardins Capital Markets
Q

So you're not seeing any particular trend in any one business that seems to be a shotgun and your U.S. experience on the lapse side seems to be normal. Is that fair?

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

That's fair. Yes.

Doug Young
Analyst, Desjardins Capital Markets
Q

Okay. I'm actually going to go at the buyback a little differently. I mean you increased your buyback 4 million shares; again it's CAD 220 million. If you're generating CAD 800 million of capital – excess capital a year and you're buying back CAD 200 million, you've given yourself another quarter of buyback [indiscernible] (00:31:01), why not increase it more? Why not double the buyback and give yourself more flexibility or am I doing the math wrong or missing something? Thanks.

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

A

No. Doug, we did. This is an amendment to our current NCIB which would end in August and at that time we would look at whether we renewed or not. This gave us the most flexibly.

Doug Young
Analyst, Desjardins Capital Markets

Q

Okay. So – yeah, okay. That's fine. Thank you.

Operator: Your next question comes from Sumit Malhotra from Scotiabank. Your line is open.

Sumit Malhotra from Scotiabank. Your line is open.

Sumit Malhotra
Analyst, Scotiabank Global Banking and Markets

Q

Hello? Can you hear me?

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

A

Yeah.

Sumit Malhotra
Analyst, Scotiabank Global Banking and Markets

Q

Hello?

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

A

Yeah. We can hear you, Sumit.

Sumit Malhotra
Analyst, Scotiabank Global Banking and Markets

Q

Okay. Good. I was having some phone problems. I was just making sure everything is okay. Just on a couple of the moving parts on the book value that are upcoming so this is likely for Kevin Strain. So you gave us or you reconfirmed the URR sensitivity and that would be I think you told us about CAD 100 million if the 15 basis point reduction is enacted. Are you expecting that to be in the actuarial review in Q3?

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.

A

Yeah, Sumit. This is Kevin Morrissey. Yeah, we are expecting that. So as you're probably aware the Actuarial Standards Board did release their initial standard and it is a 15-basis point reduction in the long-term URR which is the one that we're sensitive to. And so our estimate of that is CAD 100 million after-tax reduction. We are planning to do that in Q3; that's similar to what we had done the last time that came around in 2017.

Sumit Malhotra
Analyst, Scotiabank Global Banking and Markets

Q

Okay. So, we'll see about that. And then as far as GreenOak is concerned, when that transaction was announced in December it was stated that the impact on shareholders' equity on merging the two entities, GreenOak and Bentall Kennedy would be CAD 730 million. Is that Kevin still a good accurate number and are we likely to see that before the end of June?

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

Well, the – we're – I'll let Steve talk about the timing of the transaction but in terms of the accounting impact, that's roughly what we're still expecting.

Stephen C. Peacher — A
President-Sun Life Investment Management, Sun Life Financial, Inc.

And in terms of the timing of transaction, it's been – it's taking a while because we had to get regulatory approval in a number of jurisdictions. Those are going quite well. In fact, we just got one more approval today. Who would expect this to close right around the end of the quarter, maybe July 1 as opposed to June 30, but we're on track for closing in over the next couple of months.

Sumit Malhotra — Q
Analyst, Scotiabank Global Banking and Markets

And to the extent we talk about this transaction, Steve, over the last few months, a lot of it has been on the potential diversification for the business with respect to geography and frankly strategy in terms of how the respective real estate portfolios are managed; and maybe the right time to ask it in a quarter where Sun Life had positive expense experience for the first time in a few years, at least the way you report it. You're putting together two entities here that get you to close to CAD 40 billion in assets. Is there anything we should expect from an expense synergies perspective or with this franchise being more in growth mode, is the expenses not really a big part of the story in the near-term?

Stephen C. Peacher — A
President-Sun Life Investment Management, Sun Life Financial, Inc.

Sumit, I think that as these two entities come together, we're going to find some efficiencies from an operating standpoint. That really was not the driver of the deal. The driver of the deal as you mentioned was about an expanded range of capabilities on the real estate side, which allows us – there's a trend in the market of institutions wanting to reduce the number of real estate managers. This gives us a broader platform with a high-growth entity with exceptional returns. So the transaction was really about broadening our positioning. I do expect to the margin, we're going to find some efficiencies but it wasn't the driver of the transaction.

Sumit Malhotra — Q
Analyst, Scotiabank Global Banking and Markets

Last one for me and I'm going to say it's going to be Kevin or Claude. I just wanted to circle back on Asia. I know obviously you've got the let's call it the credit provision in the quarter or the credit downgrade in the quarter had an impact on the earnings in the segment.

But when we look at expected profit, where I don't think that would have factored in, the growth rate was about 2%. Kevin, in your comments, you seem to be distinguishing between what was happening in the core insurance and wealth part of the business than International. I feel like we haven't had to talk too much about the International piece of late. Maybe just a little bit of color from you to reiterate what exactly drove the contribution from the international piece down this quarter and are there factors that were one-offish in nature or is this something where we should see a lower run rate from International in the near-term?

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

A

So I'll start and then maybe Claude can jump in. It's Kevin Strain. So on the International, there are three big impacts to International. International took almost the entire PG&E impact that I've talked about in Asia. So, the downgrades to the investments, the PFIs we had.

The second is International, it's the first time this has happened in a long time and you do get some volatility here, had bad mortality experience. And then with the lower sales, it had some more new business strain in International. So if you look at the earnings impact to Asia, International was a significant piece of the decline in underlying earnings and with each of those three components. And in the order that I mentioned: The credit, the mortality and then the new business strain.

If you looked at Asia, expected profit from the core, sort of seven local businesses as Dean called them earlier, we did see some – the expected profit there grew by more moderately than you would expect. There was an impact on our fee income from equity market declines in six of our seven markets in Asia and that impacted the fee income there so – so you've got the combination of a couple of different things happening in Asia.

Sumit Malhotra
Analyst, Scotiabank Global Banking and Markets

Q

And just the fee income piece, I would think that that has a lot to do with where you started the quarter in terms of AUM as opposed to where you ended it?

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

A

Yeah, that's right. It's really to do with the – sort of the equity market performance and where the quarter started and what happens. You've got a lot of impact in Asia related to China and China economy and those types of things as well.

Sumit Malhotra
Analyst, Scotiabank Global Banking and Markets

Q

Thanks for your time.

Operator: The next question comes from Steve Theriault from Eight Capital.

Steve Theriault
Analyst, Eight Capital

Q

Thanks very much. To start, if I could just follow-up a bit on the Asia, International, the PG&E, I understand that was split across divisions but just going into the sales and probably for Claude. Claude, last quarter you talked about new product launches, rate volatility extending the selling cycle and how sales are getting pushed into this year. But the Q1 sales were pretty modest. Can you update us on just the confidence level around getting sales back to the prior run rate and how quickly we should expect to see that?

Claude A. Accum
President-Sun Life Financial Asia, Sun Life Financial, Inc.

A

Yes, Steve, it's Claude Accum here and we've seen these two quarters. Now, so starting in Q4, so we did see a shift in market preferences for certain products away from the traditional universal life product that has been very successful for us for the last decade.

And as you pointed out, that shift away from UL continued in Q1 in the high net worth space. So how we have responded is we're focusing on products that operate better in a low interest rate environment and offer equity market participation so that the two products we're focused on are indexed universal life and par whole life. We've actually already launched the indexed universal life high net worth product offshore. And we've also successfully launched a high net worth par product onshore in Hong Kong, and that product is gaining quite a bit of traction and it's driving some of the strong sales that you're seeing in Hong Kong. And so we're going to continue that progress. And this week – this month we're going to be launching a competitive high net worth par product into the offshore market, so we'll have two products out there in this space. And we're looking for that product to garner as some good sales trends traction in the second half.

Steve Theriault
Analyst, Eight Capital

Q

In the second half? And then just one last thing on that as you are migrating away from that traditional UL product; that was a good support item in the context of the strain line, would these new products have – like will they have similar propensity to help that line item in the source of earnings.

Claude A. Accum
President-Sun Life Financial Asia, Sun Life Financial, Inc.

A

This product would have similar strength to the UL product. It's an interesting product in that, so the cycle ultimately it's a very low capital-intensive product so we think that can be quite favorable.

Steve Theriault
Analyst, Eight Capital

Q

Okay. And then the last thing for me was, also in Asia but on the wealth side. I think Kevin you mentioned in your opening remarks about – was it Philippines money market, but the last few quarters the sales have been more like $2 billion versus $3 billion when you look back to prior run rates, I think that's right anyway. How much of that is that sort of money market noise that's not all that impactful to the margin. How much of it is potentially just slower wealth sales that have been offset by some strong insurance sales [ph] over the last little bit (00:41:08)?

Claude A. Accum
President-Sun Life Financial Asia, Sun Life Financial, Inc.

A

It's Claude Accum here, I'll be happy go with it first. So as you point out, wealth sales are down in Q1, it's down by CAD 1.9 billion, about CAD 1.3 billion of that is actually coming from India and about CAD 300 million from the Philippines.

So, in India, what you're seeing is industry sales are actually down about 50% and that's similar to us and that's due to the Indian markets where mid-cap was down 3%, small cap was down 14% and so that's impacting the India markets.

In the Philippines, the CAD 300 million decrease was mainly in money market sales and that was more of an institutional space. It's due to a large institutional sale in the prior year so it's not retail. And so our wealth sales are basically following what's happening in the equity markets. As Kevin has indicated, six of our eight countries are down significantly year-over-year, but as the market rebounded and we saw that in Q1 that we did see an uptick in March and so we think our wealth sales will follow the equity market cycle.

Steve Theriault Q
Analyst, Eight Capital

Okay. Thanks for that color.

Operator: Your next question comes from Tom MacKinnon from BMO Capital Markets.

Tom MacKinnon Q
Analyst, BMO Capital Markets (Canada)

Yeah. Thanks. I was wondering if you might be able to split out what the expected profit is in Asia, between Asia kind of proper, I'll say, and then International because it's kind of different stories one is complete high net worth, another is the kind of a growth in the emerging middle class. So would you be able to share with us proportionately how the expected profit might split between those two?

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

We haven't separated those two at a time. It's – we can think about that sort of going forward and how we want to disclose this, but we've included just sort of the one item on the source of earnings. I think if you thought about my sort of broader comments, you can think about the sort of local markets in Asia focused on growth and getting the growth up and what really impacted them this time was the fee income on the markets and then in terms of the expected profit in International, the sales don't have a significant impact on changing that, that's over a longer-term that that would sort of impact those pieces, but we're not. We haven't separated out the two.

Tom MacKinnon Q
Analyst, BMO Capital Markets (Canada)

Okay. Then, if I go to the U.S. employee benefits or sort of the U.S. Group Benefits, the margin obviously better at 7.9%, probably helped by the great mortality and morbidity experience you had in the quarter. In your 6.5% target, what does the – are there policyholder experience gains like mortality or mobility gains in that 6.5% and if so, how much do you need in order to hit that?

Daniel Richard Fishbein A
President-Sun Life Financial U.S., Sun Life Financial, Inc.

So, we – Tom, this is Dan Fishbein. We recently updated our target to 7-plus percent.

Tom MacKinnon Q
Analyst, BMO Capital Markets (Canada)

Yeah.

Daniel Richard Fishbein A
President-Sun Life Financial U.S., Sun Life Financial, Inc.

And we don't assume explicit morbidity or mortality gains in order to achieve that. We price for the margins that we're seeking to achieve. And as I mentioned earlier in stop-loss for example, we've been able to be very successful pricing for those margins. The margin in the first quarter it's on a trailing 12-month basis was obviously very much benefited by favorable morbidity experience in the stop-loss business.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay. That's great. So you assume zero. And then, the final thing, with respect to Canada years ago, we had a career sales force that was probably growing, I don't know modestly.

And now if you look over the last several years, this career sales force continues to decline. So, strategically, it used to be sort of a good par sales and maybe a mutual fund sales machine. Strategically, what's happening here with the Sun Life career sales force down 8% in 2017, 8% in 2018 and then another 5% year-over-year?

Jacques Goulet
President-Sun Life Financial Canada, Sun Life Financial, Inc.

A

Thanks for the question, Tom. This is Jacques. You're right, 5% this last time. I'll take you back perhaps 18 to 24 months because we changed our focus a little bit, one, from I would say just recruiting more advisors to one of improving the overall client and advisor experience, right, and that's meant a lot of changes in terms of the digital experience that we're delivering so that ultimately our advisors can work more effectively with their clients, deliver a better quality product and so on.

And so the other thing I would say is if it's not shown in the numbers but because of the increased focus on quality, Tom, we've been putting the bar higher on the number of recruits and so we're recruiting quite a few less than we used to, and those that we do it's kind of the fail/fast process in a way. We tend to recognize faster if they're going to make it or not. But if you'd split the number of advisors into two buckets, you'd find and let's say you define these buckets as more experienced advisors versus new or more developing advisors, you'd find that actually we're kind of flat on the experienced advisors that sort of support this strategy that I was telling you about.

Strategically-speaking, I'll remind you that we are focused on two different channels: Career sales force is very strategic for us, but so is the third-party. The sales continue to be good. If you go back seven quarters or eight quarters, we're either number one or number two. We were number one for the full year 2018.

When we look out, we've said that at Investor Day if you remember, but we have a point of view generally that Canadians are insufficiently insured, so we think the model we have is a pretty good one. And in terms of the CSF as I said very focused on digital and technology and bringing tools to our advisors. And it's stabilizing. So we think that you'll see decreasing numbers there in terms of the head count decrease.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thanks for that.

Operator: And our last question is from Mario Mendonca from TD Securities. Your line is open.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Good afternoon. Could we just go back to the U.S. expected profit and I'm referring – let's exclude MFS for a moment. It does look like on a U.S. dollar basis, it was flat year-over-year and I'm trying to sort of piece together what we're seeing here because it doesn't look like it's a margin story necessarily. It looks maybe like it's more around the asset growth side. And the reason I'm sort of going at this is because what we are instead seeing instead of the expected profit growth, we're seeing the experience gains emerged so strongly and is that really where you'd guide us that we really should be piecing those two together? Dan?

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

A

I might be able to start and I've got the detail sitting in front of me and I'll give Dan a chance to talk about the other piece, but you have to remember, Mario, there's a couple of other pieces inside of the U.S. including individual insurance, which is the run-off business. So you see the expected profit sort of come down a little bit over time and there was a small negative in business group capital, so maybe a little counterintuitive because it doesn't relate directly back to the Group Benefits piece. In the Group Benefits piece, we saw a growth in stop-loss that really supported the overall growth in Group Benefits' expected profit.

Daniel Richard Fishbein
President-Sun Life Financial U.S., Sun Life Financial, Inc.

A

And you'll see some additional growth in the expected profit in the second quarter because the way we record this is in the quarter when business is effective, it's recorded as new business gain and then it transitions over to expected profit in the subsequent quarter. So with such large stop-loss sales this past January 1, which was part of the first quarter you're seeing that phenomenon and then we'll see some of that switch over next quarter.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

Okay. I think that sort of clarifies it for me. If we could think a little bit about experience then and just on a total company basis, there were a few items there that threw me off: First, the Other, the minus CAD 35 million, I think last year you gave us a – or last quarter rather, you gave us a good understanding of what was in the positive CAD 38 million, have you spoken yet to the minus CAD 35 million and I may have missed it, I'm not sure.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.

A

Yeah, Mario. This is Kevin Morrissey. I'll talk a bit about the Other. So we had losses this quarter of CAD 18 million and so that's more in-line with what we would expect kind of on a going forward basis and that's similar to what I had said a couple of quarters ago.

What we're seeing in that line are some of the shorter-term strategy costs build over wealth strategy and digital projects in Canada. Some of that in the U.S. is related to Maxwell Health. And in the Corporate line, we also have some project spend related to the IFRS 17 project and so those totals of about minus CAD 18 million, that's more in-line with what we expect kind of in a normal quarter.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

And so those are minus CAD 18 million, so there was just other stuff going on that got you to minus CAD 35 million then?

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

Yeah.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Sorry. I just don't follow. You were offering me an explanation of how it got to minus CAD 18 million, but the number is minus CAD 35 million, is there anything else you [indiscernible] (00:51:06)?

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

The minus CAD 18 million is the after-tax number, Mario.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

Yes.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

I'm sorry.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

Yes. Minus CAD 18 million is the after-tax for the quarter.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Yeah. I misunderstood, of course.

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

Yeah.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.
A

Yeah.

Mario Mendonca
Analyst, TD Securities, Inc.
Q

Okay. I totally understand now. And the investment activities were also very strong. Was there something – is this just a number that we'll see bounce around based on the opportunities to invest the proceeds of sales or new business essentially?

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

A

Yeah. I think that's a way to think about that, Mario. It's run a little – that's a little higher than our sort of typical run rate, but we were able to deploy some PFI investments with higher spreads against some of our liability segments and that drove the gains.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.

A

Yeah. And, Mario, it's Kevin Morrissey. I may just add to that, you are right that it's going to bounce around a bit with the volume of new business sales as well and so where we have big annuity sales in a quarter, you might expect to see that a little lighter in the in-force and – but we continue to source good volumes with good spreads to put against liabilities.

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

A

If you looked at the total of experience notables, so CAD 57 million in the quarter. The last eight quarters have averaged around CAD 42 million. So it is a little higher in total despite the fact that we had the PG&E impact in the quarter.

Mario Mendonca
Analyst, TD Securities, Inc.

Q

That's helpful. Thank you again.

Operator: Your next question comes from Darko Mihelic from RBC Capital Markets.

Darko Mihelic
Analyst, RBC Capital Markets

Q

Hi. Thank you. I just wanted to look for a little more color on the indirect exposure to PG&E. It surprised me a little bit in the quarter and I guess what I mean by color is I don't really understand where you sit today. So in other words, you downgraded some of these credits by how much what happens next quarter. Do they go up; do they go back down again, what is the prospect for more hits coming from this?

And then I guess because I have to go back all the way to Q1 2010 to find credit experience of this magnitude for Sun Life and so on a broader question, I guess the question is should I be tracking bankruptcies for further sort of downgrades and credit experience and I guess essentially what I'm asking is the upgrade to downgrade kind of ratio that you had this quarter. How far off from normal is it? And maybe I'll just stop talking there and you can provide us with a little more color on this so that I can better prepare for the future?

Randolph Brill Brown
Chief Investment Officer, Sun Life Financial, Inc.

A

Sure. It's Randy. Thank you for the question. So we have as you know no direct exposure to Pacific Gas and Electric but rather these indirect exposures in that Corporate loan book. So these are renewable energy power agreements where they are the – they purchase the power coming off of these production units. So we downgraded them internally based upon the public bankruptcy of Pacific Gas and Electric. And the reason we do that is the rating methodology that we've used is standard and it is a combination of the expected loss and probability of default.

So, while we feel, economically, we have many levels of protection we have to burn through because we are very [ph] quite secured (00:54:40) in these cash flows. The probability of default rose which led to an internal downgrade and therefore strengthening of the reserve.

If you were to exclude this one name, we actually had more upgrade than downgrade and had one of our best credit quarters in quite a long time, so it is fairly idiosyncratic in nature.

Darko Mihelic
Analyst, RBC Capital Markets

Q

And given that there was a bankruptcy that caused this, I mean are these credit now considered also in default even though it's current, is there further downside possibility. I mean what happens next if you go through the bankruptcy proceedings, does it come back to haunt you later on or does it actually get upgraded. I mean I'm just curious on where we sit today with respect to this credit?

Randolph Brill Brown
Chief Investment Officer, Sun Life Financial, Inc.

A

Sure. So as we – from where we sit today, it's definitely a complicated workout which we think will take several years. We – PG&E is current in all their payments on these contracts and our holdings are all current. And so that's why you're seeing no impairments on these.

In terms of the future path, as I said there are multiple layers of protection in a bankruptcy in certain states in particular. Anything can happen, but we think that the probable course is a fairly protracted workout where we think, economically, we should recover. So if that's the case, you would see these be written up over time. If for some reason things turn materially negative which again is not what we expect, there is potentially downside on them. Remember they are producing energy and Californians need energy so that's not going away. They're producing renewable energy and California has mandated 33% of all of their energy in the state will be provided by renewables by 2020 moving up to 100% by 2045. Remember these are long-dated projects, so they're not going away. So if – so by then the payments are being passed through to the – the cost to the ratepayers, so it's a complicated situation but based on every piece of analysis we've done to-date, we think that it should work out favorably.

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

A

Darko, it's Kevin. I think it might help if Kevin Morrissey talks about how the downgrade impacts the liabilities because this ends up being a significant portion of the investment as well.

Kevin Morrissey
Senior Vice President, Chief Actuary & Appointed Actuary, Sun Life Financial, Inc.

A

Sure. Thanks. Darko, this is Kevin Morrissey here. When the securities are downgraded, the actuarial reserves pick up an increased risk margins in these provisions in the future. As Randy noted, they're quite long-term securities so the reserving impacts in the present valuing of this actuarial risk margin over extended periods of timing and so that's part of what's contributing to the severity of the impact in the quarter.

Darko Mihelic
Analyst, RBC Capital Markets

Q

Okay. But I guess – I don't want to keep beating this dead horse too much longer but it was just a one notch downgrade. I mean, I don't know – this sounds like it must be a large exposure and I guess what's the ultimate worst case scenario?

Randolph Brill Brown
Chief Investment Officer, Sun Life Financial, Inc.

A

It's Randy, Darko. No, it was – internally, we had a multiple notch downgrade that we ...

Darko Mihelic
Analyst, RBC Capital Markets

Q

All right.

Randolph Brill Brown
Chief Investment Officer, Sun Life Financial, Inc.

A

... we did. We have a standard methodology and that's what came out of that probability of default and the expected loss calculation. There is a wide range of potential outcomes within any rating as we've said. So it's not that the position itself was in any way particularly outsized for our balance sheet. It was the multiple notch downgrade given the duration and the reserving methodology.

Darko Mihelic
Analyst, RBC Capital Markets

Q

Okay, that's very helpful. That's what I was searching for. Great. Thank you very much.

Randolph Brill Brown
Chief Investment Officer, Sun Life Financial, Inc.

A

Welcome.

Operator: Your next question comes from Tom MacKinnon from BMO Capital Markets.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Yeah. Thanks. Just a quick follow-up. I think – just to confirm I think you talked about a target LICAT at SLA of 120% and maybe a leverage target of 25%, and of the CAD 2.5 billion at the holdco, how – if you can confirm those and at the CAD 2.5 billion at the holdco, how much would you be prepared to take that down to like the CAD 500 million [indiscernible] (00:59:16) at the lowest level? Thanks.

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

A

So Tom, it's Kevin. Yeah, we've talked about a leverage target of 25%, that's correct, and we've talked about keeping CAD 500 million sort of cash buffer so that second part is also correct. We haven't given our LICAT target ratio. There are a lot of assumptions out there – that I know different analysts have been making, but we have not given a specific target around that, but we have given the cash which is how we look at our capital position at the holdco and we've also talked at Investor Day how much additional cash we get from going to our target of 25% leverage and then how much in addition we could get if we went up to 30%. So we have significant capital flexibility.

And the other thing we look at when we think about capital, we look at our capital sensitivity and the strength of the capital in terms of sensitivities improved significantly with the movement to LICAT and that also gives us confidence in different scenarios.

So we look at the – I think the right way to look at it is that the cash of the holdco CAD 2.5 billion and thinking about CAD 500 million to be held as a buffer and then the leverage position and we can move up on the cash.

Tom MacKinnon
Analyst, BMO Capital Markets (Canada)

Q

Okay. Thank you.

Operator: And that was our last question. At this time, I will turn the call back over to Greg Dilworth for closing remarks.

Gregory A. Dilworth
Vice President-Investor Relations, Sun Life Financial, Inc.

Thanks, Mike. I would like to thank all of our participants on the call and if there are any additional questions, we will be available after the call. Should you wish to listen to the re-broadcast, it will be available on our website later this afternoon. Thanks and have a great day.

Operator: This concludes today's conference call. You may now disconnect.