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# EDITED TRANSCRIPT

SLF.TO - Sun Life Financial Inc Investor Day 2017

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## PRESENTATION

**Greg Dilworth** - *Sun Life Financial Inc. - VP of IR*

Good morning, everyone. Welcome to Sun Life Financial's 2017 Investor Day. My name is Greg Dilworth, Vice President Investor Relations here at Sun Life. Thank you all for joining us today both here in the room and on the webcast.

For those in the room, you should have copies of the presentations in front of you as well as the speaker biographies. For those attending today's event via the webcast, you will be seeing the slides as our speakers walk through their presentations and copies of all the materials are available on our website.

Turning to the first slide, I draw your attention to the cautionary language regarding the use of non-IFRS financial measures and forward-looking information which form part of today's presentations. This slide reviews the reasons why forward-looking information may be rendered inaccurate by subsequent events.



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On the next slide you can see the agenda for today. We will begin with remarks from Dean Connor, President and Chief Executive Officer of Sun Life Financial, followed by presentations from Sun Life Financial US and Sun Life Financial Canada. Following a short break you will hear from MFS Investment Management, Sun Life Financial Asia and Colm Freyne, our Chief Financial Officer.

There will be an opportunity for Q&A following each presentation. If you would like to ask a question, please raise your hand and wait for a microphone. Please remember to state your name and the organization you represent before asking your question and please limit yourselves to one or two questions so that other attendees may ask their questions as well. And with that I will turn things over to Dean Connor to kick the event off.

### **Dean Connor** - Sun Life Financial Inc. - President & CEO

Thanks, Greg. Good morning, everyone. Thanks for joining us today. Thank you to our investors for your ongoing support and thank you to all the analysts here for your hard work in understanding and analyzing our Company.

Key messages we'd like to leave you with today are as follows. Number one, over the past five years we have built both a strong defense and a strong offense. Number two, we have four at-scale competitive pillars each of which has excellent growth prospects. And the development of the Company has been underpinned by significant cultural change that I will talk about in a minute, organic investments that are hitting their stride as we look ahead, and a track record of disciplined capital allocation.

So combined we've effectively transformed and repositioned the Company over the past five years. And for the next leg, as we look ahead, our objective is to become one of the best insurance and asset management companies in the world. And I will talk about what that means and how we are going to get there.

This, above all, will require a step change in our client relationships and how we work with clients, how we serve clients, how we think about client relationships. It is a step change, a significant change, a pivot and I will talk again in a few minutes about what that means. And all of this supports our medium-term objectives that we rolled out two years ago of 8% to 10% EPS growth, 12% to 14% ROE and a dividend payout ratio of 40% to 50% of earnings.

So, we are very excited about the next five years and today we are going to share what we are working on and how we are going to get there.

A few words about the past. First, the past five years have been successful. You can see on slide 3 a 15% CAGR in life and health insurance sales fueled by strong growth here in Canada, strong growth in Asia, strong growth in the United States in part from our acquisition of the Assurant business. You see wealth sales growing at 9% a year driven by strong growth in MFS, in Sun Life Global Investments and more recently Sun Life Investment Management as well as our wealth businesses in Asia.

All of that is translating into very strong VNB growth, and this is a chart showing VNB excluding asset management businesses, 19% growth and in some ways this is a more future-looking statistic. The sales have been logged and put on our books. This is the value of those sales that we'll release into earnings in the future.

And, as you can see, we've grown VNB faster than sales and we've done that through a combination of better product mix, better pricing and producing expense gaps. And all of that showing up in growth in assets under management, 16% a year closing in on CAD1 trillion of AUA and AUM.

We built momentum on earnings. You can see 16% CAGR on underlying earnings growth, strong momentum and that plus valuation has translated into a very strong total shareholder return of 28% compounded annually over the past five years to December 31, outpacing the rest of the industry.

We have built a strong defense, as I said. And the defense, first of all, shows up in terms of a balanced and diversified business model. You can see we are roughly half-and-half between asset management and wealth and protection. You can see by geography we've got nice diversification.



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Just a call out on the UK -- we don't talk a lot about the UK as it's not one of our four pillars. But the UK business continues to generate strong earnings, strong dividends up to the holding company and strong ROE. And the team there has done a terrific job continuing to optimize and strengthen the business and do a great job for our clients.

But good business diversification, good geographical diversification. And you can see across the bottom the underpinnings of a very strong risk posture. So, no VA and long-term care business in the United States.

And if I could just make a point on that. This is more than a financial thing. If I could tell you about the amount of management mind space that has been liberated by not having a VA business, liberated to focus on offense, it is significant and that's a big part of our story. Very strong balance sheet, 243% MCCSR, 23% leverage ratio and some holdco cash, CAD800 million, so a very strong position there.

So we've built a strong defense. We have also built a strong offense and you see that first of all in the organic investments we've made. And what's interesting about these is a number of them were made starting in 2009-2010. In the teeth of the financial crisis we were investing in, spending money on and launching new businesses like defined-benefit solutions, which last year did over \$1 billion of annuity transactions, and Sun Life Global Investments, which has reached CAD15 billion of AUM and has moved into profit territory.

Underpinning this as well have been a lot of investments in technology. And we will talk and you'll see from our business leader this morning how those technology investments are manifesting. But here in Canada in the group benefits and group retirement businesses we are leaders in technology. It is driving business and keeping business with Sun Life and that will continue to be a focus for investment.

In the retail business in Canada, Forrester recently rated us as number one in terms of the digital experience for life insurance clients. And you'll hear examples of how MFS is investing in technology for clients and how we are doing that in Asia and our US group business. So a lot of investment in technology.

At the bottom of the slide you see CAD2.5 billion invested in a number of transactions; transactions that are fully aligned with our strategy; transactions where there is a clear path to creating value from the business; transactions that have been accretive in whole and in part; and transactions where we are pleased with the execution on those. And you'll hear more specific to the US Assurant transaction in a few minutes.

So a strong defense, strong offense and today we have strong market positions in all four pillars. Each of these businesses now has enough scale, enough heft, enough momentum to compete and win in its respective field. We couldn't have said that five years ago.

So today our US group business is number six and it has the scale in the capabilities to be a leader in that market. In Asia we are number six now among our geographies, excluding Japan; number six in the income; number six in sales; number six in brand awareness. And we couldn't have said that five years ago, so we had the scale and the heft with which to compete.

One part of our story that doesn't show up on quarterly calls is the change in culture that's gone on in the Company over the past five years. And it's a change towards a culture of high performance, a culture where we set ambitious goals that are achievable and hold each other accountable. A culture where we've been strengthening the talent in the organization. A culture where we have been very focused on clients. So that has been an enormous change in the organization.

And the last thing I would say about it, it's a culture that has created tremendous alignment and that is driving progress in the Company. When you can get 21,000 people and 100,000 advisors around the world lined up, pointing in the same direction, pulling the oars together, you can move mountains. And that is actually one of the biggest parts of our story in Sun Life.

So enough of the past. What about the future? So looking forward, we are very excited about our business and it starts with clients. Clients need us more than ever before. Those who have a financial plan sleep better and save more, we know that. And yet over 80% of Canadians don't have a comprehensive financial plan and under 70% actually have life insurance, so there's a lot of work to do there.



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In the US 94% of employees consider that ancillary benefits, life and disability and dental are really important in considering a job offer. And yet the vast majority of employers do not feel they are getting bang for the buck when it comes to their benefit dollars and they don't feel employees understand their choices.

The shift to passive investment management continues and yet by definition 100% of those investors will underperform the market net of fees at a time in a low-return world where alpha generation and the potential for alpha generation is important, especially given that most people are not saving enough for retirement.

And in Asia over the next 15 years some 2 billion people -- it's an astonishing number -- 2 billion people will move into the middle class. And the challenge there of course and the opportunity is there just aren't enough advisors to serve 2 billion people and to advise 2 billion people on how to save for their kid's education and their dreams. So a lot of opportunity when we look at the world through the lens of our clients.

Today we are sharing what we think is a bold new objective. We see this goal as ambitious but achievable and that goal is to become one of the best insurance and asset management companies in the world. If you asked yourself who fits that bill today, who occupies that space today, we don't think it's a long list of companies and we see a lot of white space there and we see the opportunity to print Sun Life's name in that box as we look out over the medium-term.

What does it mean to achieve that? Well, first and foremost each pillar will have to be seen as a leader in its own right, that it a serious competitor in its market with lots of heft and capacity and momentum.

Second of all, we have to be seen by our clients as delivering top-quartile client experience and we are measuring that and I will come back to that in a minute. But if our clients don't see us in this bucket we can't view ourselves as having achieved the goal.

The third one is we have accumulated, developed and can say we have a disproportionate share of the top talent in our industry around the world. And last but certainly not least, the outcome of all that is we are delivering again top-quartile total shareholder returns to our shareholders.

So this is I think the first time we have set an objective that is externally focused, where we are marking ourselves against the global industry. And it's the first time we've really centered it around our clients and it is a long-term sustainable view of the business.

So how are we going to do this? Well, it starts with our four-pillars strategy. We are not going to five pillars. We are not going to three pillars. We have spent a lot of time over the past year reviewing and refreshing our thinking on the four pillars and we like the four pillars and we are convinced that they will help us achieve our ambition. And why is that?

Well, first and foremost each of them has the heft and the capacity and the scale to, as I said, to win and compete in its own business. Second of all, the drivers of demand, the long-term drivers of demand for what we do in Canada, for what we do in Asia and the US in asset management continue to be strong. And thirdly, this mix of pillars shares the feature of being lower capital, lower risk, higher ROE businesses like the US group business that we can re-price on a regular basis so they have favorable economic business characteristics.

And the last thing about these four pillars is, there's leverage between and across the pillars. No one pillar stands on its own. And you'll hear some examples of that this morning from our business group leaders; examples where we have leveraged technology across a pillar or know-how into India Asset Management from MFS and so on and so forth. So the four pillars continue to be a key part of our strategy.

Now achieving this goal will require intense focus on clients and the clients are in the middle of our strategy. And I will come back to that in terms of what does that actually mean and what is changing. Supported by focus on digital, investments in digital; focus on data and analytics; focus on talent; and of course continued financial discipline. So let's cover each of these in turn.

We are making a step change and changing the client experience is a big change. As we have been discussing internally, it's not one thing, it's everything. So there's a lot of change here and let me say a few more words about what that looks like.



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We are changing from the language of customers to the language of clients. And it may seem like a small thing but it's actually quite profound. A client is someone with whom we have an ongoing professional relationship, someone where the relationship is based on trust, someone who feels that we have their back and we have their best interest at heart and as a result they will do more business with us and stay longer.

Shifting from a world of product sales to a world of solutions and ongoing advice; from a world of a one-time interaction, a one-time sale to an ongoing lifetime relationship. Shifting from a world where frankly much of the insurance industry has been reactive. We sell a policy and we may not talk to that client for many years, to one where we are more proactive, where we are using data and predictive models to ping them, to reach out, to touch them at relevant moments with relevant ideas.

And you will see that, for example, as Kevin Dougherty talks about the Digital Benefits Assistant that we launched in Canada a year and half ago. So we are more contact but relevant contact at key moments in their lives. And shifting the jargon and shifting the paper and the complexity to simpler language and a simpler interface.

So this will feel different. It's going to feel different for our clients. The relationship is going to change with our clients. They are going to see us more frequently. They are going to see us showing up with timely proactive relevant offers that are personalized.

It's going to feel different to our advisors. We are not going around our advisors but we are going to enhance their productivity again activating their clients and pinging them and touching them and contacting them at key moments to put them in touch with their advisors.

It's going to change a lot of what we measure, so we have rolled out new KPIs in the Firm. We've rolled out a new incentive plan that puts 25% of the annual incentive award based on client outcomes. So we've rolled that out in the last month starting in 2017. And the list goes on. In short, it changes everything. So there's just a tremendous amount of work.

We focus this work in three main buckets. The first is a more proactive experience for clients. So as an example, when somebody joins their Company we give them a welcome call. We phone them up, say welcome to your company. Your company has a fantastic benefits plan, a fantastic pension plan; let us show you how to unroll in it; let us show you how to set up your mobile account; let us show you how you can enroll your beneficiaries and your dependents. And oh, by the way, do you have any assets from another institution that you'd like to roll or your former company pension plan that you'd like to roll into the plan. That's just one example.

I talked about the Digital Benefits Assistant. It is out there now nudging our plan members, saying hey, Dean, your 25-year-old son is about to drop off your plan. Do you want to cover him for out-of-country coverage, just click here and do that. So personalized, proactive, proactive outreach to our clients. So lots of work underway there.

The second bucket is making us easier to do business with. So you would've seen us announce a lot of changes in underwriting within the last six months. We've completely eliminated the use of ECGs in underwriting. We look back at the data and they had little predictive value. So we have completely eliminated the use of ECGs when you are applying for life insurance.

So one example of making us easier to do business with. You will hear more examples again about mobile apps and digital tools that we've put in the hands of our advisors and clients and it's making it easier to do business with us.

And then lastly is resolving problems in a better way, more empathetic problem resolution. Faster problem resolution. Empowering our front-line staff to make decisions, the kind of decisions that the leaders would make if they were present at the table.

So when we achieve these things, when we are more proactive, easier to do business with and resolve problems better, we believe we will do more business with our clients. We will expand the number of lines of business per client. We will keep our clients longer and they will refer more friends and family. And most important, we will achieve our mission, which is helping our clients achieve lifetime financial security and well-being. So that's center to the strategy.



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I talked about digital and data and a lot of work underway again to make us more personalized proactive. To leverage the data we have, as you would expect, large amounts of data on our clients. We see drug claims. We see when they change jobs. We see when they add dependents. We see when the change addresses, when their salary changes.

We see a lot of data on our clients. And we are using that data more and more, artificial intelligence and other ways, to harness that data and leverage it on behalf of our clients. Significant investment in digital, CAD250 million over the three-year period that is going to get us there.

I've talked about top talent. We've made great progress. We've had improvements in our engagement scores in the last three years, so we are now top-quartile among global financial services companies in terms of staff engagement. We've made great progress on building the pipeline of succession and talent in the Company. Over 80% of our senior jobs now have successors and we are driving that towards 100%.

Top-caliber leaders. We can benchmark our recruiting. Every single person we hire must upgrade the average. That is the mantra around the Sun Life world and we are making great progress on that.

And brand is important, not just for clients but for our people. Having a brand that -- number one trusted brand in Canada is hugely important and people want to be associated with a company that's doing great things for clients and that can be trusted.

So, the Sun Life story in a nutshell. Ambitious but achievable. We've got four strong pillars, they can each compete, win and grow in their respective sectors and they leverage off of each other. Number two, this is bound together by a very strong balance sheet and risk culture, including no US VA and long-term care.

Number three, underpinned by a culture that I would describe as humble but ambitious and driven by results but not yet satisfied. Led by a proven management team that will be up here shortly, that you know and you will continue to see can execute on growth with disciplined capital allocation.

And galvanized by a new objective, an energizing new objective to become one of the best insurance and asset management companies in the world. And what that means is we are going to have to really do an amazing job and a step up on behalf of clients.

And this will build on the momentum we've created, the organic investments and the acquisitions we've made to drive earnings growth, all driving towards our medium-term objectives of 8% to 10% EPS growth, 12% to 14% ROE and a strong dividend payout ratio.

So, I will stop there and we'll open it up to Q&A.

## QUESTIONS AND ANSWERS

**Meny Grauman** - *Cormark Securities - Analyst*

Meny Grauman from Cormark Securities. In slide 10 when you talk about setting a bold new objective, you talk about each pillar viewed as one of the best in its markets. I'm wondering if you had to benchmark today where would you say you [already] checked that box. And also as you look forward, where do you think you have the biggest challenge to make that step up?

**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

I think -- starting in Canada I think you can take that box, Meny. We are viewed as a leader in the Canadian market, number one in premiums and deposits, number one in GRS, number one in GB, great execution on the individual life business, number two.

I think Asia we are not yet viewed as one of the top leaders. In Asia we are viewed -- I think what I have observed in the past few years is viewed with a lot of respect, like wow, you guys are growing quickly; you tripled earnings in the last five years. You've attracted strong people. You've executed well and I think we've got some great momentum to get there good.



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Same with the US group business. I think there was a lot of competition for the Assurant acquisition. People look at that and say, boy, that was a really key acquisition, good for you. You've really broadened the platform and now let's show people what we can do with that and grow to a stronger leadership position there.

People look at MFS as a leader today and in the asset management business, as you guys so well know, is a little less about just the sheer size of AUM and more about the quality. And I think MFS is viewed and is and is viewed as a premier firm.

And Sun Life Investment Management, we haven't talked about that yet, is still small, our alternatives manager. And one day we would like it to be big enough and have enough scale and enough momentum to be viewed as a leader in that alternative space. It has every potential to do that, CAD53 billion of AUM and good growth prospects.

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**Seth Weiss** - *BofA Merrill Lynch - Analyst*

Seth Weiss, BofA Merrill Lynch. Digitization is a theme we've heard across many other of your peers. I understand the client benefit to it. Will there be a bottom-line expense benefit to that initiative as well?

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**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

Yes. Let me give you an example. And Kevin Dougherty will show this a little bit later. More and more of our health and dental claims in Canada are shifting from paper to digital and that's just -- not only is it more convenient for the client, it's way less expensive.

So people can now take a photograph of their claim and just hit send and submit and it is processed real-time, no hands, no human hands touch it and the money is in your bank account in 24 hours. It's a fantastic process for the client, but it saves us a lot of money on paper.

Underwriting -- eliminating using more data to try to figure out who to underwrite for what and allowing us to eliminate blood tests and ECGs and things like that, again, that's a big expense saving. The underwriting changes we announced in the fall will save us -- not only great for clients, that will save us a lot of money. So it's actually hard to find an example where it actually doesn't help on expenses.

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**Seth Weiss** - *BofA Merrill Lynch - Analyst*

Are you able to quantify what that does to margins or to the expense ratio if we think longer-term?

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**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

When Colm Freyne is up he is going to show you our path to the 8% to 10% EPS growth. And you will see in there an element around margin expansion and that will show up. That is one of the drivers of the margin expansion there, Seth. You'll see that in a bit.

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**John Aiken** - *Barclays Capital - Analyst*

John Aiken with Barclays. Dean, can you give us a little more framework about the incentive plan changes around the client experience in terms of does this shift to a greater proportion as we move up through the organizational structure? And previously how much of compensation had actually been based on client experience up to this time?





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**Dean Connor** - Sun Life Financial Inc. - President & CEO

So, it is 25% of the annual incentive plan for all staff, regardless of seniority, and it tees off of improvements in net promoter score and client index as well as some other initiatives that we've got in there.

I would say though that in essence to achieve our strategy improving the client experience will, we think, is a direct connection between that and driving 8% to 10% EPS growth, which drives share price. And, of course, senior executives are heavily geared towards the share price. Their compensation is heavily geared. So there is a line of sight between those two.

What I would say in terms of the past, we had 25% of the annual incentive plan focused on what we called key business projects, key business priorities, one of which was the client experience, but there were others in there. We are now using that whole 25% space to focus exclusively on clients. It is sending a very strong message throughout the organization of what we are trying to achieve.

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**John Aiken** - Barclays Capital - Analyst

And outside of that 25%, are there any changes to the structure of the other 75%?

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**Dean Connor** - Sun Life Financial Inc. - President & CEO

No, just to remind you, 50% of the annual incentive plan is based on net income; 25% is based on VNB, so the value of new business; and 25% now based on the client experience.

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**Humphrey Lee** - Dowling & Partners - Analyst

Humphrey Lee, Dowling & Partners. Based on what I'm hearing, some of the Sun Life product offerings in terms of digital capabilities, it's one of the best in the industry. But you are still talking about continuing to spend on the digital front and data analytics.

Can you talk about what areas do you feel like Sun Life is lagging or behind that you feel more compelled to invest? And then maybe you can also talk about with respect to that three-year investment plan, the expenses; where do you stand in terms of 2016 and 2017 year to date?

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**Dean Connor** - Sun Life Financial Inc. - President & CEO

So, I wouldn't say -- as I look ahead, we don't think of it as lagging, but we think about it as, as we spend money on digital projects, how do we put more daylight between us and competitors, or how do we break open a new area of endeavor? Artificial intelligence is an example of that, using AI.

We have some use of AI today to look at claims and claims patterns, looking at vast amounts of unstructured data, including call center logs and web logs and so on, and medical files, to piece together relationships that you wouldn't otherwise see. That investment in that kind of AI know-how is an example of what we are doing to -- what we think will put more daylight between us and others.

It's less about catching up. It's more about breaking new ground and as we have done in the past in some of the mobile tools that we've built. So you will see as the business group presidents talk about the business, and they will talk more specifically about what we are doing in Asia, what we are doing in the US, what we are doing in MFS.

You will see -- and of course Canada -- you will see examples, specific examples of where we are investing in technology, how it's going to help clients, how it's going to make us more productive and how it's going to -- what we think it will do is create some lead relative to others and put more daylight there.



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**Humphrey Lee** - *Dowling & Partners - Analyst*

Just on the expense side you talked about the three-year plan. And I just want to see, since 2015 is already in the books, how much of that is already spent in 2016?

**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

Of the CAD250 million, about a third has already been spent, so roughly a third, a third, a third. But I don't want you to think that that after 2017 or 2018 we just stop spending on this. In fact it's going to grow over time. We put that CAD250 million number in there just to give you a sense of the scale of the investment in digital. It is embedded in our expenses today and it will continue to be there in the future.

**Nick Stogdill** - *Credit Suisse - Analyst*

Nick Stogdill from Credit Suisse. Just to follow on that question. Could you put the CAD250 million into context of the total technology spend for Sun Life or just provide an order of magnitude? And then, is this investment all being made internally, or are you partnering with the some outside firms and maybe just how you think about those types of investments being internal or external?

**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

So it's CAD250 million relative to an annual tech spend circa CAD500 million. So over the three-year period think of CAD1.5 billion, which would be comparable to the CAD250 million. And yes, we are partnering with other firms. We have taken an equity interest in some small tech firms and businesses around the world. We are a partner at Plug and Play in Silicon Valley, so there is a section there devoted to insurance tech and we are part of the Board that sees new insurance tech ideas that come through.

The MaRS center here, we are a partner here in MaRS. And we are partnering with other companies in our digital health space and Kevin Dougherty will talk about that. There's a large ecosystem of companies in digital health growing and we are just at the early stages of that and we are out talking to many companies about how to work together and partner. There's clearly -- this is a world where we have to partner to be able to accelerate what we do and to benefit from all the innovation that's going on out there.

**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Tom MacKinnon, BMO Capital. Dean, you talked about a disciplined approach to acquisitions and making sure that they are accretive to earnings. Now when you've got a lot of cash everything is accretive to earnings. You can spend 30 times and 40 times PE multiples and make it accretive to earnings when you are sitting on cash.

Help us understand any other metrics you use. Presumably if you continue to build a Company that was maybe accretive to earnings if you are sitting on a lot of cash but didn't hit the IRR target, your ROE would have a tough time hitting that 12% to 14% target.

So, when you build out in some of these acquisitions that you noted, can you help us understand how they would have hit your IRR target? And I assume that's in the 12% to 14% range, especially given some of the higher multiples that was paid for it.

**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

Sure. The first and most important hurdle is, does this acquisition clear our 12% to 14% long-term ROE hurdle. That's the most important thing. So it could be accretive -- as you say, it could be accretive in the short run because -- if you are funny with cash. But the most important thing is, is there a path to achieving a 12%-plus ROE.



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In a world where there has been pressure on ROEs, there's been pressure and in fact some pension funds have actually de-gear'd their expectations for long-term returns, we have not done that. We have thought about it. We have talked about it. Our belief is that inflation could come back someday. We are making long-term investments and we think a 12% to 14% ROE is the right target, especially given the length of these investments and so we have stuck to that.

That is the most important criteria in that we have to have high conviction that the allocation of this capital is going to over time generate that 12%-plus ROE. And that means we end up not doing a lot of transactions that we look at it. And what you see here, the ones we have done, the CAD2.5 billion, have cleared that hurdle. And the early returns as we look back and we, like any company we do a 12-month, 24-month, 36-month look back, we can say with confidence that we are ticking the box on the path to achieving the kind of targets that we set for ourselves.

Okay. So, thank you very much. I can see from the red dot I'm actually over time, so it's my pleasure now to pass it over to the US. Now Dan Fishbein had a medical procedure last week and he was unable to travel this week. He is fine. He is absolutely fine but was unable to travel. So presenting the US story is David Healy, who is Senior Vice President of the Client Experience and Technology from the US, and Neil Haynes, who is Senior Vice President and CFO for Sun Life US. So without further ado, I will turn it over to David and Neil. Thank you.

## PRESENTATION

**David Healy** - Sun Life Financial Inc. - SVP, Client & Technology Services SLF US

Thank you, Dean, and good morning, everybody. It's a pleasure to be here to talk about the US business. So let's jump right in. This business has generated strong underlying earnings and we have a number of growth opportunities ahead.

So here are the key messages for the US. By now you are familiar with our 2016 acquisition of the Assurant Employee Benefits business. Through this acquisition we've created a combined company that's at scale with a fully competitive suite of offerings and group benefits and with differentiated capabilities by market segment. We are fully on track to deliver on the benefits of the Assurant acquisition and we have opportunities ahead to leverage the full power of the combined platform to deliver value for clients.

We continue to be a market leader in the medical stop-loss business and are taking actions to sustain our margins. Looking beyond group benefits we are accelerating growth in our profitable high net worth international life business.

Our in-force businesses continue to generate good value and we are focused on optimizing their contribution while we continue to serve our clients and meet client needs. And as we continue to execute on our strategy, the US has plenty of runway to grow and be a larger contributor to Sun Life earnings overall.

So moving to slide 3 I'd like to give you a quick overview of the portfolio of businesses in the US. You can think about them in two categories: our group benefits business and our individual businesses. We have one of the broadest offerings in the US group benefits industry with the full set of group products that you can see outlined on the slide. These include new capabilities in dental, vision, voluntary and worksite products coming to us via the acquisition.

In our medical stop-loss business where we are ranked one as the independent writer of stop-loss in the United States. Combined with Assurant, Sun Life is now the sixth largest group insurance provider in the US as measured by revenue. And we have the scale as well as the capabilities to compete effectively in all market segments.

We also have a set of individual businesses. International high net worth insurance is sold to high net worth individuals around the world. This is a business where we are a pioneer and we remain a leader. A closed block of international [above] products in a close block of domestic individual life insurance.



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Sun Life has distinctive capabilities in the US that differentiate us from our competitors and we are intensely focused on client needs. Dean discussed our strategic focus on clients and in the US business we are well aligned with this client-centric approach. For example, in the digital space we have robust mobile apps for our [dental] and voluntary clients to make it easier to do business with us.

And as we make the shift to providing more advice-based solutions, we have launched a first-of-its-kind analytical comparison tool leveraging the huge volumes of data we have when we quote benefits. This gives brokers and employers more market data around the competitiveness of their benefits package. It helps them understand what's competitive in their industry and what's competitive in their local market and allows them to make better decisions.

We are also aligning our talent and expertise by market segment to give our clients access to people who can deliver on advice and the service support they need.

As we look ahead, in addition to increasing our focus on clients, we are also focused on increasing our financial performance of our business. There are a number of specific management actions we are taking to execute our strategy so we can be a larger contributor to Sun Life earnings overall.

Before we discuss these actions it's worth noting that the businesses we are in do have some tailwinds that we benefit from. For example, in group benefits our business grows organically with growth and employment; wage inflation also drives higher premiums. In stop-loss medical trend, which is the annual increase in medical costs, increases premiums for our stop-loss business. Over the past number of years this annual rate of increase in medical trend has been in the 6% to 7% range.

This slide shows the key drivers of our business growth and overall margin expansion over the next several years. In the next series of slides Neil and I are going to address these opportunities individually.

Turning to slide 6, we've made a lot of progress in integrating our business with Assurant over the past year. We've taken a measured and staged approach to focusing on client-facing functions first and being very careful of how we integrate this business. In 2016 we integrated our distribution, our underwriting, our account management functions fully and we've rebranded our marketing material so we can operate as one brand in the market.

We have newly filed products in all states that combine the best of both company's product offerings and in 2017 our work will continue with more focus on back office functions and continued IT integration. Once complete we will be able to drive the full value of the transaction and provide a differentiated and integrated client experience.

I'm pleased to report that we are in track to achieve all of the financial targets we've established for the Assurant acquisition as a result of a very disciplined approach to how we go about integration. These are the targets we set forth at the outset of the transaction and we continue to be on track and on pace to deliver on our stated objectives.

Looking back at 2016 it is worth noting that our sales results exceeded the sales of both companies in 2015 when compared year-over-year. And this was accomplished despite it being a year of transition for our distribution organization as we reassigned territories, made broker assignment changes and combined the team.

Throughout this we retained our top-sales talent from both organizations and experienced low regrettable turnover from our sales force. Client retention has also been strong as we remain focused on our clients through the integration process.

We now have one of the broadest product portfolios in the industry with top-tier offerings in every category. We've acquired a strong portfolio of dental and voluntary products, as I noted earlier, and we see opportunities to offer these products to existing Sun Life clients. We also have the opportunity to offer our stop-loss products and absence management services to clients of Assurant that are new to Sun Life.

When you look at the broad array of products and capabilities, Sun Life can also be a one-stop shop for brokers and employers. In today's market with the uncertainty around the Affordable Care Act and medical benefits, employers can be inundated with benefit plan changes and they are



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often looking to simplify their benefit administration and shop less for benefits by product, especially in the small- and mid-market. We are well-positioned to meet these needs.

We also see the retail broker market continuing to consolidate in the US and we offer an attractive suite of products and services for brokers and firms as they look to consolidate their relationships and work with providers who can offer a full array of benefits and services.

Our dental capabilities and scale expanded significantly through the acquisition and we are using the platform we acquired from Assurant as the basis for this business. Dental is the second largest employee benefit followed only by medical with \$40 billion of in-force business in the US. This provides us with an opportunity to better engage clients more directly and more frequently.

As I mentioned earlier, we are using digital tools to improve the dental administration experience and you can see a snapshot of our mobile app here. We also have the second largest independent network in the US and this matters. It matters because in the US dental market fee schedules are negotiated individually and they are set by each individual dental practice.

The dentist is willing to negotiate with us as an insurance carrier so that they can become a preferred provider and get access to more clients from us. Insurance companies of course negotiate to manage their claims costs. But if you as an individual client like your local dentist, you'll want to make sure that dentist is in the network of your benefit plan.

We have the second-largest dental network in the country. There are approximately [85,000] practicing dentists in the US and we have agreements with over [120,000] of them. We also have the largest number of network recruiters so we can constantly grow our network. As we work with prospective clients this proves very valuable as we can add their preferred dentists as they look to come over and do business with us. Finally, this is a business that requires relatively low capital and has an attractive risk profile.

Turning to slide 10, we have structured our business functions to support each market size and segment. Each segment has dedicated and specialized sales force and sales support teams along with specialized underwriting. Not only have we organized it this way to support each market, but we have a unique value proposition in each market segment.

In national accounts we have a focus on total absence management services with a leading return to work program that is featured for prospective clients and brokers at our center for healthy work in Portland, Maine.

In the middle market we have a unique focus on enrollment tools and benefit communications. In mid market we also have a program for our top brokers, our MVP program, in which we provide support for our best brokers and growing their business to its full potential.

In the small-market we offer simplified products, cost and process efficiencies and centralized specialists where we can quote and issue business quickly and efficiently.

Our combined distribution team is one of the largest sales forces in the industry covering the entire nation. We are able to combine top talent from Sun Life and Assurant and we have a nice blended mix of sales professionals from both organizations in the newly combined distribution team.

We also have a centralized sales support team to service the East and West Coast efficiently and we have organized by market segment and by product specialty so we can provide expertise when needed for a specific client.

As I noted earlier, we achieved higher sales in 2016 than both organizations had achieved independently in 2015 despite it being a year of transition. And this leaves us well-positioned for future growth.

Another opportunity we are pursuing is continuing to build on our position as the number one independent writer a stop-loss in the US. We have a long and successful history in this market with 30 years of experience. Being number one means we see more cases and have more data than other competitors in the market. We use this data to be efficient and select the right risk at the right price and bring valuable insights to our client base.



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We've built deep partnerships with brokers and third-party administrators through our expertise in distribution and our performance has historically been very strong with margins above our enterprise target level. Over the past couple of quarters we've seen some unfavorable morbidity experience, but this is a business we can re-price annually.

And as a result of experience early in 2016, particularly with recent the increases we've seen in specialty pharmacy costs, we've already re-priced 80% of this block. This resulted in improving results in Q3 and in Q4 and we expect the impact of re-pricing actions to follow this improving trend in 2017.

So, now I'm going to turn it over to Neil Haynes, our US CFO, to talk about how we expect our actions to positively contribute to our financial performance. So over to you, Neil.

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**Neil Haynes** - Sun Life Financial Inc. - SVP, CFO, SLF US

Thank you, David, and good morning, everyone. We are very excited about our US strategy and the progress we are making in improving the financial performance of our group benefits business. I'm going to take a few minutes this morning to talk to you about how we intend to sustain that momentum. And as a point of reference, I'm going to be talking a lot about earnings margin and the definition of that that I'm using today is after-tax earnings margin on net premium revenue.

When we think about margin expansion we really think of it arising from three sources. The first is improvements in our loss ratio. The second is the result of a deep focus on expenses. And the third is the benefits of business growth itself. And we've set an objective for ourselves with respect to after-tax earnings margin on our group benefits business over the medium-term at 5 to 6 percentage points. We believe that compares well with what the industry is achieving given our particular mix of business.

So let's walk through how we expect the required margin expansion to be achieved. As you know, our group business struggled in 2014 and we instituted a performance improvement plan at that time which was focused on pricing and expenses, particularly in the disability business, but really across the full range of business activities. We also identified at that point in time a need for additional scale in our dental business in order to be financially successful and we ultimately achieved that through the acquisition.

We made significant improvement -- we had significant improvement in our margin resulting from pricing and renewal rate actions in the next couple of years that improve the loss ratio and we indeed did have a sustained focus on our expenses. The acquisition itself also had a favorable impact on our margin. It was accretive to both earnings and to margin in its first year, as the block of business was well priced and in fact was achieving margins that are much more aligned with our target.

By 2016 we had improved the underlying margin from negative territory to a favorable 3.5% as you can see on the slide here, but we do indeed see more opportunity ahead of us. And so let me tell you a little bit about how we are going to achieve that.

With respect to loss ratio, by the beginning of 2017, as David mentioned, we are about 85% of our way through the re-pricing of the group book. And that pricing really over that entire period of time has been quite disciplined. We've had a series of rate increases on LTD in particular and, by way of example, in 2016 we achieved an average rate increase on the legacy Sun Life LTD book of slightly in excess of 8 percentage points.

(technical difficulty) renewals come up. We're also going to continue to be very disciplined around new business pricing in addition to what we do at contract renewals.

At the conclusion of David's remarks he made reference to some deterioration in our stop-loss morbidity in 2016. We saw that -- we identified that early in the course of 2016 and took quick action to address that through pricing. By the middle of 2016 we had implemented an adjusted rate basis and by the end of 2016 had re-priced about 80% of the book. The balance of the stop-loss book will be re-priced in 2017 and we will see the benefit of those rate increases coming through in margin during the course of 2017 and into 2018.



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But expenses is where we are really going to see the big lift in the next few years on margin, as we continue to be very disciplined about expense growth. But more particularly and more importantly as we fully complete the integration of the Assurant acquisition and we realize the expense synergies that we targeted at the time of the transaction. And that's really the bulk of what's represented here on the slide this morning.

Our stop-loss business is already in a good place with expenses fully covered by our pricing margins. And if we are able to achieve all of these objectives we will land our margin in the 5% to 6% range. Margin expansion is indeed an important part of our financial management of the US business and I'm sure you will be interested to get ongoing updates from us as to how we are progressing.

So let's turn then to our international high net worth business. The high net worth market is large and it's growing. The main part of our business actually arises in Asia, although we do write a meaningful amount of business to residents in other geographies as well.

High net worth individuals around the world are really looking for financial solutions that can meet their intergenerational wealth transfer needs, or assist them with their estate planning. Many of these clients have large illiquid asset portfolios; in many cases they own large family businesses that they wish to transfer to their heirs and they need the liquidity that our life insurance products provide at death. They work with sophisticated financial advisors and specialty brokers who are located in key financial centers around the world.

As David mentioned, we were a pioneer in this market in the mid-1990s. We have a reputation as a leading provider. There are fewer competitors here than there are in the US domestic market and it takes time and investment and capabilities to be successful and to compete effectively. We have relationships with the key brokers and private banks in this marketplace as those relationships are critical to accessing this market.

Underwriting is also a key capability and we have a very skilled underwriting team supporting this business and we have substantial retention limits that allows us to take on large cases. When we need it we have very good and strong support from our reinsurer community. So we can be very responsive to quote opportunities when they arise.

We are very focused on the life business. We see growth and profit opportunity here for the organization. And the business aligns well with our key competencies, our ability to assume mortality risk and our ability to underwrite large cases. We've experienced attractive margins in this business in recent years and we continue to see favorable market growth characteristics.

Creating shareholder value. We've made significant progress over the past several years to evolve the US business. We focused our resources on the opportunities with the best risk/reward characteristics and this resulted in an underlying earnings performance in 2016 of \$339 million and this was spread amongst each of our businesses: group, individual and the closed domestic retail life book in a pretty balanced way. As you can see from the slide here it's about a third, a third, a third.

And although we expect meaningful growth in both group and international going forward, there will be a reasonable balance of underlying earnings in these businesses moving forward.

I've already talked about how we expect to improve margins in group and why we see tremendous growth appeal in international. And with respect to the retail life book, it continues to generate a very stable level of underlying earnings and it's running off at only about 4% or 5% a year. And this will allow us to continue to focus on optimizing its performance and returns and we expect it to be a meaningful contributor to our financial success over the next number of years.

Finally then, just to summarize, I would say that the US business is well-positioned to deliver earnings growth and to contribute to shareholder value. In the group business, continued financial discipline and strong execution in the area of pricing, renewal strategy, expense management and risk selection, including achievement of our business and financial objectives on the AAB transaction will be key to achieving our earnings margin targets.

And capitalizing on the growth trend in high net worth, global wealth will be the key to success in international life. Thanks very much for your time. I think David is going to join me and we'd be happy to answer any questions you might have.





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## QUESTIONS AND ANSWERS

**Doug Young** - *Desjardins Securities - Analyst*

Good morning. Just two quick questions. Doug Young at Desjardins Capital Markets. One on the US group insurance side. Can you talk a bit about the competitive environment and the type of ROE that you generate in that business, if you care to share that?

And then on the international side, is there any regulatory changes that are out there that you are worried about that could impact that business? Thank you.

**Neil Haynes** - *Sun Life Financial Inc. - SVP, CFO, SLF US*

I will take the first part of that, David. So in terms of competitor results and ROE achievement in the marketplace, I can't really comment on where other competitors might be landing. As I said, I think that our margin target of 5% to 6% after-tax is competitive with what we observe in the industry.

From a return on equity point of view, we see opportunity to improve our ROE in addition to earnings margin. I'm expecting that our group business will contribute to the overall enterprise ROE objective, at least at the level that we are committing to on an enterprise-wide basis, our 12% to 14% target. Over the medium term, I would expect our group business to achieve that level.

**David Healy** - *Sun Life Financial Inc. - SVP, Client & Technology Services SLF US*

Just to add to that, I think part of your question was the nature of competition in the US group (technical difficulty) business, and I would say there are a number of competitors in the US market, but not every competitor operates in each segment of the market. So we see different players in different segments.

Generally speaking, we have a very competitive and compelling set of capabilities now, and we have some unique value proposition in each market segment that allows us to compete on things other than just price in those markets.

So a great example of that is I was mentioning our Center for Healthy Work in Maine. It's a place where we can showcase to prospective clients all of the capabilities that we have for large cases. Very often, they are worried about return to work, stay at work and their absence management programs.

And we are able to put on display our clinical staff and the kinds of resources we can bring to bear to help our employee benefit groups have an active and productive workforce.

So we really focus on our capabilities and those capabilities, particularly with the ones we've acquired now in combination with Assurant, really gives us a great foothold in ways we can compete in each segment we are in.

**Paul Holden** - *CIBC World Markets - Analyst*

Thanks, Paul Holden, CIBC. So two questions. First, part of Dean's presentation showed that your ranking in US group benefits overall was number 6, but ranked number 10 in voluntary benefits. So wondering what explains the gap and if there's a plan to close that gap.

And then second, with respect to the US group benefit, wondering if you can talk at all about the investment income and reinvestment rates and if there's a potential lift to ROE as US bond yields start trending higher here.



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**David Healy** - Sun Life Financial Inc. - SVP, Client & Technology Services SLF US

So I'll take the first part and maybe, Neil, you do the second. So in terms of voluntary benefits, we do see a lot of opportunity in the space. Yes, we are ranked more at 10. Part of the reason for that is most of the focus of the Assurant business and the pickup we received as a result of the capabilities we now have is involuntary capabilities that Sun Life did not have before.

And Assurant themselves were focused on smaller market size segments, and they generally were selling only to clients that had employees of 500 or less. So we see lots of opportunities to take the capabilities that we have acquired through Assurant and offer them to our full range of clients, and bring those capabilities into other segments of the market where really Assurant was not playing before.

So that will give us a good opportunity in complementing other products that we can bring to the table to grow our voluntary business from where it is today.

**Neil Haynes** - Sun Life Financial Inc. - SVP, CFO, SLF US

With respect to the impact of rising interest rates on the performance of the group benefits business financially, I think the short answer is yes. Rising interest rates will have a modest impact on returns, in part because of higher returns on the surplus assets supporting the business in the first place.

And with respect to the underlying book, principally LTD claim liabilities, we run a very well-matched investment portfolio, so we're not particularly sensitive to interest rates in the group business existing claim reserves per se. But certainly from a new business point of view, a rise in rates will enable us to generate a higher level of margins, all other things being equal.

Of course, there will be competitive response to that, so it's difficult to judge exactly what that will look like. But in general, one would expect some modest uptick in returns as a result of higher rates.

**Sumit Malhotra** - Scotiabank - Analyst

Sumit Malhotra, Scotia Capital. You talk about re-pricing in this business on the group side in a couple of different areas. I've always thought of this as a business, or group as a business in the US in which customers are very price sensitive. So in putting through these increases that are going to help your margin, is the industry following suit? Or are you expecting that we're going to see a deceleration in sales as an offset? That's one.

And then the second part of it, Sun Life had a group business in the US. You acquired the Assurant business and that added dental capability, I think was the one that you talked about the most. Are there other product areas within your group business that you feel acquisitions are required to help infill?

**Neil Haynes** - Sun Life Financial Inc. - SVP, CFO, SLF US

Well, with respect to rate increases, we have been quite pleased with our persistency outcomes on renewal activity. Some cases require larger rate increases than others. One of the things that we monitor is the loss ratios on businesses choosing to terminate where we are proposing larger rate increases than smaller rate increases.

And we are pleased to see that the business that is terminating from the book is business that was experiencing weaker financial performance, higher loss ratios. So that's a good outcome for us and will also contribute to loss ratio improvement and margin improvement.



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We are seeing other companies put forward rate increases as well as ourselves, and that's supportive as well. There are switching costs for employers, and so they are certainly price-sensitive as we all are. But they weigh that against what the switching costs are going to be and whether it's the right time for them as an organization to be back in the market sourcing a new set of employee benefits.

**David Healy** - Sun Life Financial Inc. - SVP, Client & Technology Services SLF US

You had -- part of your question was around, do we need acquisitions or to further round out our portfolio. We have a fully-scaled business and we have lots of capabilities to deliver what we need from our clients in each of the market segments we operate. So we don't need an acquisition to take (technical difficulty) those forward.

Having said that, we are always looking at capabilities that will add value for clients, and if there's a specific capability that we could benefit from that will bring more value to a client that allow us to compete on things other than price, then maybe there's something that we could consider. But generally speaking, it's not something that we need in order to compete effectively in the marketplace. And we really have one of the broadest sets of combined capabilities now with the Assurant acquisition to allow us to be successful in US group benefits.

**Humphrey Lee** - Dowling & Partners - Analyst

Humphrey Lee, Dowling and Partners. You talked about you have expertise and access to all [seven different] markets in the US group markets, but can you talk about the top line or the bottom line mix between -- among the small case midmarket and the large case market?

**David Healy** - Sun Life Financial Inc. - SVP, Client & Technology Services SLF US

Yes. So generally speaking, we divide the market in three different ways. We look at our small market which we consider to be anywhere from 1 to 50 employees, and then the middle market from 50 to 2,000, and then large case market is over 2,000. Now we do not play in the jumbo market segment, so generally we like larger cases between 2 and 5000 lives.

When you look at our mix of business, about a quarter of our business is in that large case segment. So we are diversified by segment. We have just under 60% -- or just over 60% of our business is in the midmarket and the rest is in the small case market. So we compete really in all three of those segments.

**Humphrey Lee** - Dowling & Partners - Analyst

So 60% in the large space, the (inaudible), and then the rest in small cases?

**David Healy** - Sun Life Financial Inc. - SVP, Client & Technology Services SLF US

60% of our block, our in-force business, is between 50 and 2,000 life groups.

**Humphrey Lee** - Dowling & Partners - Analyst

Okay, all right.

**Tom MacKinnon** - BMO Capital Markets - Analyst

Tom MacKinnon, BMO Capital. Neil, given that the biggest next step in order to achieve your target, 5% to 6% margin, is just largely expense saves; suffice it to say that you will achieve this target by 2019 when the Assurant cost saves are already through?



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**Neil Haynes** - Sun Life Financial Inc. - SVP, CFO, SLF US

Yes, there's a direct correlation between achievement of our earnings margin targets and the completion of the Assurant integration. We established a three-year time frame for a full integration of the Assurant business. As David said, we are very much on track to completing that. So that 2019, 2020 timeframe is when we would expect to see the full run rate benefit of the transaction flowing into earnings and contributing to that earnings target.

**Tom MacKinnon** - BMO Capital Markets - Analyst

Help us understand why it takes 3 to 4 years to integrate this business and get these cost saves. It seems to be longer than some other transactions. What is it specifically with this business? And you're only about -- you are less than halfway there now. What do you need to -- is there any kind of list you can share with us? Because it seems like the progress you've made is you've identified all the cost saves. I thought that was done when you announced that you were going to get \$100 million in cost saves.

**Neil Haynes** - Sun Life Financial Inc. - SVP, CFO, SLF US

Well, we identified \$100 million of cost saves at the time of the transaction. We have realized about 40% of those. So as we come into 2017, we have about \$40 million worth of cost savings that should be flowing into margin, flowing into earnings. But there is additional another \$60 million that we need to achieve, and I think David can comment more specifically on the timeframe and what's involved.

**David Healy** - Sun Life Financial Inc. - SVP, Client & Technology Services SLF US

Part of why this takes times is simply because these contracts we write with our clients are usually for two- or three-year periods. So we are naturally going to, as the business comes up for renewal, move them into a consolidated, integrated state on our Sun Life legal entity. So that's really why it takes a little bit of time, is because even though we have all the capabilities and we start to put them together and we've been doing that for a while, really it's on renewal that our clients will be fully integrated into the new combined business.

So it's a little bit different than how other acquisitions work from that perspective.

Okay, I do see that we are out of time. So in the interest of time, I'm going to invite Kevin Dougherty up here, our President of Sun Life Canada, and he's going to speak to you about that business. So, Kevin, over to you. Thank you.

## PRESENTATION

**Kevin Dougherty** - Sun Life Financial Inc. - President, SLF Canada

Good morning, everyone, and bonjour a tous. It's a pleasure to be here today to talk to you all about Sun Life in Canada and our plans for the future. While one tends to think about Canada as a relatively mature market, we actually see considerable potential for Sun Life in Canada. And I hope to be able to give you a sense for that this morning.

So what I'd like to cover then in the next few minutes is a quick review of our traditional core businesses and their performance; then talk about some of the innovations that have consolidated our leadership position in these businesses, generating growth and protecting margins; and then move on to profile four new engines of growth that we've been investing in, talk about the size of those investments and the emerging success.



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So to start then, a quick review of the last five years. Underlying earnings growing at 4.5%, AUM at about 8.5%, and VNB at 14.6%. Intuitively, this picture makes sense. Growth from new engines show up first in VNB, then develop into AUM and then into earnings, and you see that reflected here.

Underlying earnings growth from core businesses have also been impacted by enormous headwinds from interest rates, as shown on this next slide. As we all know, interest rates last year reached unprecedented lows, and really we're only recovering in the final few weeks of the year. This impacted demand for certain products, in pricing gains in 2016, and I can honestly say this was quite a headwind for the first nine months of the year.

While it's hard to say for sure, it does feel like this headwind has come off a bit, and this will be positive for core earnings going forward.

Investments in new businesses like SLGI and Client Solutions also muted earnings growth, and I'll give you a sense for the quantum of this aspect a little bit later in the presentation.

So in these next few slides then, we have a quick overview of the performance of our core businesses. We have further extended our leadership positions. Our number 1 position is in great benefits and in group retirement services. We have the leading insurance and wealth-based career network in the country, in a world where people need more and more help with retirement, with tax, with estate planning and with achieving financial security.

And in survey after survey, we have the most trusted brand. So this footprint is actually really quite unique and a great source of earnings momentum, a great platform for extending our business model. So, for example, new products like SLGI funds we are able to push out into the workplace, sell over the kitchen table with advisers, or to tens of thousands of members leaving group plans each year.

In individual insurance at the heart of it, we have our career sales force, our career advisor network. One of the jewels in the Company, now over 4,000 in number in 1,200 communities across the country, 70% licensed to sell both insurance and wealth; and most importantly, to deliver financial advice and financial planning.

Even taking out the fire sale last year due to tax changes, our individual insurance sales have grown at a CAGR of 17% on the strength of consistent growth in our career advisor network and in exceptional growth in our independent channels.

Our group benefits business is known for its industry-leading technology, the highest client retention rate and its number 1 position, which was further increased last year. Business in-force growth continues and is on track to reach CAD10 billion this year.

It's a very similar picture in GRS, industry-leading technology, client retention, and market position. GRS assets under administration have grown to almost CAD90 billion, about 30% above the nearest competitor. So we're at about 41% marketshare. The next competitor is at 31%. The third competitor is at 21%. So we really have scale in this business. We are at CAD90 billion almost, up from CAD55 billion in 2012.

Our success in the group businesses is driven by strategies like total benefits. Very difficult to replicate and really made for the market leader, one integrated offering bundling top providers in group and GRS. One PIN, one password, one website, one mobile app, making it easy and convenient for plan members to use and appreciate their pensions and benefits. Strategies like this make it easy for plan sponsors as well and help us to protect margins. Just over half of our top 100 GRS clients are group benefit clients as well.

Likewise, our industry-leading mobile platform is one of our huge advantages in this business. Our mobile app is the highest rated app in financial services in Canada. And I thought I would just flip to - just to try to bring this slide alive a little bit, I'm just going to give you a little bit of a quick demo.

So imagine you're just logging on to the Sun Life app. Last year we introduced a login feature where you can login with your thumb. And so it's authenticating automatically with your thumb to do log on both to our app and, if you wanted to get to the call center afterwards, you're automatically



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logged in. So this technology has actually increased the usage of the app by four times just because people don't have to access passwords and all that sort of thing.

Here you see the main menu screen. This is a total benefits client, so you've got health and well-being which is group benefits and my investments. My investments actually includes your GRS at the workplace and if you have Sun Life advisor and personal investments they would show up here.

Right here you can visit your GRS balances, you could actually do a deposit. So you could be in line at Tim Horton's, you could move money from the bank into your GRS, group RSP and you can do that before you get to the front of the line.

If you go to the group benefits, this is a list of what's the features. For example, Dean talked about submitting a claim. You can take a picture of it, send it to us, we will adjudicate it. If you actually want to enter the details, which just takes a couple of quick screens, we'll adjudicate the claim online, tell you the exact payment, the money will be in your bank account within 24 hours, so tomorrow morning. It's fantastic. I can't tell you the reaction of plan members to this.

We actually just recently added a feature where instead of directing it into your bank account you can direct it into your Sun Life group RSP plan as well. So go through one or go through the other, and so you see the benefits of total benefits.

Also on this screen you can see -- you've got your claims history, you can check your coverage. Not just what's covered but actually what's left in your plan, so what's left for -- how much you've got left for vision care for glasses, how much you've got left for paramedical services.

And one of the really coolest features that we've added in recent -- this is in September of last year -- is a provider search function. So this is a function -- let's say you are looking for a chiropractor, you just select one of the providers, do the search and this pulls up a list of chiropractors that are closest to where we are right now. So these are chiropractors in the MaRS vicinity or in the vicinity of your office or wherever you are and you can see Lillian Chow is 250 meters away from us and there's a map and how to get there.

And also, on this, you can see these ratings and these are ratings from other Sun Life members which we capture during the electronic claims process. So these are other select members, so people like you at your workplace that have used these providers and have rated them. And you can see 4.5 stars and so on. You work your way down, you can see the number of ratings that different people have given.

And so I'm kind of looking at this -- the other feature it's showing is direct billing. So it shows you providers where you don't have to have any out-of-pocket, the provider is going to bill Sun Life directly. For the average plan member, this is a very powerful tool.

When I look at this, Shirley Bella, she's got five stars, she's not very far well, she's got direct billing, so just look at that. Click on it, click to call and book an appointment and off you go. So that's -- we are already collecting -- we've got 500,000 ratings already.

We just launched this in September, so this is a like extremely powerful tool in terms of ratings. And we're just getting started and you can imagine the next step will be to book appointments directly and maybe collect a fee for that from providers. So this is the beginning of really opening up a huge opportunity for us to connect people to healthcare to help them to use it and help them to act.

So with that, I could demo that for quite a while, but I'll go back to the next slides, but I would say just before I leave, this is -- we've got a huge advantage over most all competitors in Canada around this. We've got a huge lead. Some of the smaller carriers are going to have an incredible time trying to catch up to this and I think this just gives us great prospects for the business in the future.

So with that, moving on to the next slide, I'd say of course it's about technology but of course it's about people too. In 2011 we literally re-launched Sun Life in Quebec to better connect and resonate with Quebecers. We created key executive roles including a President, a Vice Chair. We recruited a deep bench of industry talent. And we introduced really important sponsorships like Cirque du Soleil. Results here have had a huge impact on success overall in Quebec and therefore in Canada overall and that's what you see driving some of our growth rates.



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So with that, now let me turn to some of the new engines of growth that we've been investing in. You can see them listed on this timeline. I'd like to call out SLGI, our retail wealth distribution and new seg fund product, defined-benefit solutions and Client Solutions. Really, we've been really busy transforming Sun Life in Canada with these investments. And as these initiatives mature and move from the investment stage to the benefits stage each of these will help to lift our earnings above the basic core levels.

On the bottom right-hand side you can see an earnings view of the dollars that we've been investing, most of which is increasingly behind us as these initiatives start to create revenue and the investment is behind us. The benefits are really -- it's exciting to see the benefits of these investments come on stream. The value of new business just from these new engines of growth last year accounted for 33% of our VNB in Canada. So really we are just getting started but it's exciting to see this early momentum.

So let me take you through four of these engines in turn. First up Sun Life Global Investments, off to a great start, really exceeding all expectations. Last year with industry net sales down 48% SLGI net sales were up 60%, increasing AUM to almost [CAD]16 billion and now we're really at scale in this business.

This is a result of excellent product and investment performance supported by strong marketing and distribution across all of our Canadian businesses. For example, in our retail wealth business, we've invested strategically in growing our footprint with the wholesale sales team growing from 28 in 2012 to 110 today, selling SLGI mutual funds and more recently our newest Sun gift product which should reach \$1 billion of sales this year. As you can see from this chart, sales of Sun Life manufactured wealth products have doubled in the last four years.

Turning now to Defined Benefit Solutions, this is an exciting and highly profitable new business. We are the industry leader here. And again, despite falling interest rates we've expanded the market with innovations like longevity products and inflation linked annuity solutions. Looking ahead, we are optimistic that this market is now poised to grow and we are well placed to benefit from this as the industry leader as a rich source of business growth and pricing gains.

And finally, I would like to feature our Client Solutions business, one of the most exciting new areas of the company. For years, Client Solutions has been building out our rollover business which, as you can see, continues to grow very robustly.

Now Client Solutions is using data analytics and digital connections to reach out to plan members with bright ideas to help them to get the most out of their benefits programs. To make sure they don't leave money on the table when they join a plan or when their circumstances change. To make sure that they have the information that they need in the moment to get the most out of their pension and benefits, and in the future about their healthcare.

So this is all driven by something that Dean talked about, our Digital Benefits Assistant, a technology that is fundamentally changing our relationship with plan members in our group business. You can think about this as Amazoning your group and pension benefits, eventually maybe or healthcare as well.

Last year, Client Solutions did [CAD]3.3 billion of wealth sales over the phone through digital, with plan members entering plans, growing inside their plans or leaving their plans. \$3.3 billion over the phone or through digital channels. Over [CAD]20 million of insurance sales and over 80,000 leads to Sun Life advisors. So these are really exciting numbers for us, especially that this is really -- we are still at the early stages of this and we see enormous potential.

So coming back then to one of Dean's key slides, we believe that we will continue to win in Canada by putting the client at the center of everything we do, leading with the digital technology to make it easier for people to do business with us. Using analytics and technologies like the Digital Benefits Assistant to connect them to what they need. And having a workforce that is completely align and engaged in the Company and our mission.

So with that, I'll summarize by taking us back to where we started. Good solid growth from the traditional core businesses, protected by a competitive advantage in technology, new engines of growth coming on stream with much of the investment behind them, with the client at the center of



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everything we do, at the worksite, through advisors and through new digital channels. Thank you very much and now I'd be pleased to open the floor to any questions.

## QUESTIONS AND ANSWERS

**Meny Grauman** - *Cormark Securities - Analyst*

It's Meny Grauman from Cormark Securities. I want to back to slide 6 where you talk about the career advisor network, but fundamentally up you can adjust expand on how you use technology without circumventing your career network. And I guess more fundamentally, isn't there -- if you think longer-term isn't there a clash between technology and the career network? And at one point doesn't technology diminish the value of your career network as you look forward? Curious on your thoughts.

**Kevin Dougherty** - *Sun Life Financial Inc. - President, SLF Canada*

Yes, no, thanks for that question. So when you think about how, and Dean talked a little bit about this, we have a business -- the industry model is one where there isn't a high degree of engagement with clients even though they're clients that are paying us every month maybe for insurance. But there isn't a high degree of engagement and that is because of things like geography and things like understanding when to engage and how to engage and to do it in the most efficient way.

And we believe that using data analytics and technology we can look inside our advisors' client base, we can see things that have happened, we can see things that are happening bringing in data from external sources, looking at patterns in our group. And we can reach out to them and nudge them at exactly the right time to connect with connect with their advisor. So we see this as very, very complementary to really driving up the productivity of our advisors.

I think if you look out over time, there's obviously different segments of the Canadian population and you need different things at different life stages. But if you look at our business and what we do, it is not just about investments. It's about financial security, it's about protecting your family, life, health, wealth, it's about getting ready for retirement and what that means and how do you protect your assets, your family along the way.

At the moment of for retirement it's not a do it yourself project for sure. These are really, really kind of big, big decisions that people have to make with the benefit of a lot of expertise and advice. And estate planning is the same way. So, I think we see technology as creating a lot of efficiency, as creating a lot more business opportunity, streamlining a lot of the processes. But we see people as needing advice about financial security more than ever.

**Meny Grauman** - *Cormark Securities - Analyst*

Just as a follow-up, do you think that -- like if you look 10 years from now do you think your career advisor network will be materially smaller than it is today?

**Kevin Dougherty** - *Sun Life Financial Inc. - President, SLF Canada*

No, no, I think it will have evolved considerably over the next 10 years. There will be an efficiency and an outreach that we don't have today. If you look at Dean's stats, I think it was 80% of Canadians don't have a financial plan. And again, going on the web and coming up with a financial plan, really it's not really going to do it.

It's a very personal process with lots of emotional considerations and lots of trade-offs. And so, we would see technology -- and people are more important than ever, but technology takes a lot of the labor out. It takes a lot of the wasted time and labor out and you can have more and more rich conversations.





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**Steve Theriault** - *Eight Capital - Analyst*

Steve Theriault from Eight Capital. With interest rates higher are you starting to see the pipeline for the Defined Benefit Solutions business building on the back of that? And you have a slide there that shows the sales numbers. But is there a point at which we start talking about that business driving more to the bottom line, driving more incremental earnings?

**Kevin Dougherty** - *Sun Life Financial Inc. - President, SLF Canada*

Yes, the pipeline has increased considerably. As we sit here today, there's a good pipeline of opportunity in the Canadian market. And I think that is related to -- if you go back to this time last year, their interest rates were falling and really through the first nine months it was fairly quiet. We had good solid sales last year and you would've seen it, most of them showed up in Q4.

This is a huge area of opportunity and as pension plans get more and more on side that's where doing a Defined Benefit Solutions transaction makes sense. Taking it off your balance sheet once you're in a place where you can say let's de-risk and let's make sure this never happens to us again.

So the DB assets in Canada are \$1.5 trillion, not all of those assets need de-risking solutions like we have. But if you just look at the growth in those assets year to year, the market isn't even as large right today as the growth in assets from year-to-year.

So there's a ton of upside here and we've been really building towards this opportunity. So looking ahead we think the conditions are much better, interest rates have improved and people are feeling much better. Funding and pension plans is in a better place and so we are very bullish about the opportunity for this business.

**Steve Theriault** - *Eight Capital - Analyst*

If I could sneak one more in. A couple years ago you were talking to us about restructuring the seg fund business. I think you mentioned \$1 billion in sales. But how well has that gone and have you seen a noticeable -- any noticeable shifts in marketshare on the back of that product?

**Kevin Dougherty** - *Sun Life Financial Inc. - President, SLF Canada*

Yes, terrific. So really in May of 2015 we launched a Sun Life manufactured segregated fund product. In previous times, we had a co-manufactured product with CI and the economics really just weren't there for us and in the new product they are. So we've been excited about that. A big part of the investment was getting that product off the ground.

The early acceptance has been very good. We've already moved into third position in the market in Canada, so we expect to continue to improve on that. We'll do about \$1 billion of sales I think this year. The product is an excellent product. If you were to talk to advisors you would get great feedback on it. So it's really just a matter of doing the missionary work of taking the product out one advisor at a time, one wholesaler at a time and building these new players.

**Seth Weiss** - *BofA Merrill Lynch - Analyst*

Seth Weiss, Bank of America Merrill Lynch. Just wanted to follow up on the Defined Benefit Solutions. Why confine just to Canada? Is there something about the Canadian either accounting, regulatory or competitive dynamics that's more attractive than in the US?



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**Kevin Dougherty** - Sun Life Financial Inc. - President, SLF Canada

Great question. So it is a question that we are studying the US. In Canada, it's a great place to start because we've got such a great foundation. We have all these GRS relationships that we are able to leverage right off the bat. We've got a brand name that people recognize in the pension world in Canada.

We have the back room systems to issue payments and all of those kinds of things. So it's really the place to start and build from and we continue to study other markets. I can't say we've got plans in the short term but it's a potential future opportunity.

**Paul Holden** - CIBC World Markets - Analyst

Thanks. Paul Holden, CIBC. So I wanted to understand slide 3 a little bit better. You talked about VNB flowing into UAM and then into underlying net income. So obviously there's been a bit of a gap there over the last few years with VNB growing at 15% and underlying only at 4%.

So, two questions there. One, can you help us understand the time lapse between growth in VNB and underlying net income? And maybe some of the factors that have caused that gap over the last five years and maybe why they reverse going forward?

**Kevin Dougherty** - Sun Life Financial Inc. - President, SLF Canada

Sure, sure. Well, I think I would just point you to, number one, the fall in interest rates and we've seen 4.5% growth in earnings but in a different interest-rate environment. If you take the first nine months of last year, for example, it was very severe in terms of impact on things like pricing gains, income on surplus, demand for certain products. So there's a headwind that -- you can do your own modeling around it -- that is there in the underlying earnings number.

And number two, the investment that we've been making in these new initiatives that I showed on the later slide, those are big investments, they've gone right to the bottom line in terms of their impact in earnings. The VNB calculation by itself doesn't take into account investments that we are making in other parts of the business. It looks at the product on its own.

And so, as we get to critical mass like we have in the case of SLGI and in the case of DB Solutions, then you break through to income and --. So you can look at that slide that shows the impact on earnings if you were to think about that and how that goes down over time, then I think you could triangulate to bridge across these different metrics.

**Nick Stogdill** - Credit Suisse - Analyst

Nick Stogdill from Credit Suisse. Just going back to slide 6, Kevin. If you could talk a little bit about the insurance sales, the differential between the career sales force and the third-party channel and the growth rate differentials, maybe the outlook going forward. And then is there a difference in margin between the two channels? Because typically when you think about third-party you think lower margin and being driven by pricing.

**Kevin Dougherty** - Sun Life Financial Inc. - President, SLF Canada

Yes, okay, sure. So career sales force sales have been growing at -- in the 2% to 3% range if you take out the Q4. I think we would continue to see that kind of growth on the life insurance side and higher growth in double-digits on the wealth side for the career sales force. That business is priced well above our hurdle rates. This is a great channel, highly rich business that we are doing in this channel. We have the ability to manage product mix in a different way, so the makeup of that product mix is very, very good for the Company. So it tends to be 15%, 17% range.

On third-party channels, the mix of business is a little bit different. You see a lot more par, you can't manage the product mix the same way. But these sales have been very, very beneficial to the Company. We priced the same way across both channels, but the third-party channel tends to



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be on very, very large face amounts, really older age affluent markets and the career sales force is really midmarket mid-affluent. So those are the differences there.

Third-party sales have really made a huge contribution to things like expense gaps to covering our infrastructure and increasingly have now moved into a place where they are providing good profits at the bottom line. So these are both really, really good businesses. Third-party sales would be -- they would get at least to 12%, they'd be 12% to 15% in terms of what we are bringing through to the bottom line.

Okay, looks like we've run down the clock, so thank you very much for your questions. Thank you very much everyone. We are going to a 15-minute break so we will see you back here in 15 minutes.

(break)

## PRESENTATION

**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

Okay, we're back, we're ready to get going for the remaining segments. You would have noticed that we do not have Sun Life Investment Management on the agenda for today, and you will recall that we had in Investor Day on Sun Life Investment Management back in the fall, so that's why we don't have it on the agenda for today.

But just as a reminder this is a business that we feel very excited about. We finished the year on a very high note. We did CAD4.4 billion of net sales in Sun Life Investment Management last year.

We finished the year with CAD53 billion of AUM in our alternatives business, Sun Life Investment Management. And we start the year with a lot of momentum, and what's really exciting is we are starting to see, we're seeing synergy across the businesses within Sun Life Investment Management including a new product launch by Ryan Labs that's just garnered a CAD600 million win of a US defined benefit pension plan in a new strategy that was made possible by leveraging the derivatives capability of Sun Life in the US in partnership with Ryan Labs.

So we will be updating you, of course, on Sun Life Investment Management as we go. But the main focus for this morning is MFS Investment Management.

So it's my pleasure to introduce Mike Roberge, CEO of MFS. Mike, over to you.

**Mike Roberge** - *Sun Life Financial Inc. - CEO & President, MFS Investment Management*

Good morning. How is everyone doing? I'm an investment guy, I have ADD, I can't stand by the podium there.

So my objective today is to leave you with three key messages. So I've been at the firm for 20 years. I have a lot of passion around talking about MFS, particularly the value that we have added on behalf of our clients over a long period of time.

But I want to leave you with three key messages: the first is the belief that active management is dead is not only overstated but it's false; the second would be that over a long period of time MFS has added tremendous value on behalf of our clients and talk about how we believe that we are still well positioned to do that as we look forward over the long-term; and, finally, talk about a high-quality firm like MFS, how we think the market underappreciates the quality of the business in terms of the financial returns that the business generates as well as the natural growth in earnings that actually you get out of the business through a cycle.

So let me start. Start with some key messages. So as we go out and survey institutional investors around the world and we ask them the question how valuable, how much do you value active management, over 70% of our clients say they highly value active management.



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And so irrespective of what's happening with flows today our institutional clients around the world understand the value that active provides and they continue to have a demand for active products. We believe that the value is created for clients over a full market cycle, and I'll talk about that. Today is the anniversary of the bull run in equities.

It bottomed on March 9 of 2009, so we are eight years into the cycle. The S&P 500 is up 300% in total return over that period of time. Investors have forgot markets go down.

So I will use the baseball analogy, I don't know if we are at the beginning of the cycle or the end but we are certainly closer to the ninth inning than we are the first inning. So clients should now be thinking about downside protection and how they position their portfolios when we get volatility back in the marketplace.

MFS has generated consistently strong investment performance on behalf of our clients. And we think we are well-positioned to continue to grow share as we look at markets around the world. And then, finally, our business is very well diversified which provides balance in the business across an investment cycle.

The first thing I want to do is level-set people. I think it will give you a sense of how to think about active. And I think I'm going to be able to convince you why active has been challenged and why as we look forward we think there's going to be value for active managers in the marketplace.

The first would be this, and this shows you the bottom line here, the dark line shows you companies on a trailing 12-month basis with negative earnings. The top line shows you companies over a trailing 12-month period of time that had positive earnings.

And making this reasonably simple because it's going to prove a point. And it shows dispersion in the marketplace. What it shows over long period of time, fundamentals matter.

Now you are thinking you invited me here to tell me that obvious fact. But I'm good to show you in a second that it hasn't mattered more recently.

But fundamentals long-term drive value, drive stock prices, allow for out-performance. If you can buy the top line and avoid the bottom line, guess what, you can add value relative to a benchmark through an entire cycle.

If we go to the next page, look at the last five years, it hasn't mattered. Negative earning companies have performed in line with positive earnings companies. There has been very little dispersion in the market.

Why is that? Every central bank around the world was pumping massive amounts of liquidity into the market. Every asset price went up.

Bonds went up, real estate went up, equities went up around the world. All asset classes went up over this period of time, it didn't matter. Fundamentals have not mattered.

But, again, go back to the prior slide they will matter. We will get dispersion in the market, and it's going to come when we get volatility back in the market and we begin to get dispersion amongst individual securities in the market, as well. That's the opportunity today that active offers relative to benchmarks.

The other headwind for active has been all the money coming into ETFs every day by the ETF constituents every single day. If you don't own the ETF constituents that's a drag relative to what's happening. That will go the other way, when the market rolls over, the flows that are going to come out of the market are going to be ETFs, you are going to want to own the constituents that aren't in the ETFs during that period of time.

So let's look at how managers do in differing periods of dispersion. I will start first on the right-hand side of this slide. In lease dispersed markets, those where dispersion in the market is lower, the average manager underperforms by 140 basis points annually, which is pretty good drag relative to the benchmark. It's very hard to add value when volatility is low, dispersion in the market is low, particularly after fees.



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Having said that, high-quality managers continue to outperform. Now the gap is relatively narrow but they do continue to perform relative. If you look at our performance, and I will show you this, we have actually added value over the last five years even in low dispersed markets, but the value has been compressed, and clients start to ask the question is it worth paying a fee for relatively little alpha?

Look on the left-hand side of the page. In the most dispersed markets the average manager does better but continues to underperform. Given fees higher quality managers, top quartile managers, add significant value relative to the benchmarks.

It's actually in down markets that active compounds relative returns for clients. So given the fact that we are eight years in, should clients be worried about chasing beta in an up market or thinking about how to protect principal in a down market? We think it's pretty obvious what clients should be doing today.

Another headwind for active, and this goes at those managers that have been most challenged have been US large cap managers where everyone says the reason that they underperform is there is very little inefficiency in the market, everyone has got the same information but it's actually more complicated than that. And it's this is most US managers own 7% of their portfolios in non-US stocks.

Why do they do that? 35% to 40% of S&P revenues are sourced from non-US economies. The S&P is not a US benchmark, so managers like us if we can find a stock outside of the US that looks exactly like the US stock in terms of revenue composition trading at a cheaper multiple we will buy that stock.

Now you take on near-term currency risk as you buy a stock denominated in a different currency, over time it's the underlying business that's going to drive returns. That over the last three years, and that's a 35% difference at 7%, has been a 250 basis point headwind to the average active manager in the S&P 500.

Someday people are going to wake up and say margins in the US are at peak, valuations are at peak levels, Europe margins are still at trough levels and valuations are low in Europe. Someday Europe is going to outperform relative to the US. Don't know when it's going to happen, that will be a tailwind for managers relative to US benchmarks.

Interest rates, as interest rates come down historically volatility in the market comes down and what you see is excess returns come down. As interest rates go up over time what you see is excess return is created over that period of time.

Now part of the decline in interest rate and the drag on active management has been cash. We are a liquid alpha provider on behalf of our clients. We own 1% to 1.5% in our portfolios in cash because clients want us to be liquid every day, all the time.

So with an S&P up 300 basis points, or 300%, excuse me, in the last eight years, a 1% to 1.5% cash position has been a 3% to 4.5% drag on performance for a liquid alpha provider like MFS. That will eventually go the other way and it will be a tailwind in a down market. So we think that as rates go higher that will provide opportunity for active.

And then, finally, if you look at the type of market environment and you go back and look at the last 27 market cycles, and again I will start on the left side here, in rising markets average active manager underperforms and is a drag on the clients' overall portfolio. Again, top quartile managers continue to add value even in rising markets. But it's on the right-hand side of the page that's important.

When this market goes down, someday, historically you blindly pick an active manager you outperform the benchmark. If you pick a high-quality manager you massively outperform. These are annualized numbers by the way, by 540 basis points a year.

So active is not dead. Clients are going to need active and we've actually begun to see some more institutional clients who recognize this moving some of their passive book back into active, again as they recognize the benefit and the downside protection provided by high-quality asset managers.



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So if I look at the US retail market, because I think this defines that passive risk in the market, institutions have been going passive for the last 30 years. That actually isn't growing in the institutional market. The biggest headwind institutionally is the de-risking risk, where as equity markets go up you see them sell equities and try and immunize their liability stream.

Where we've really seen a massive growth in penetration of passive products in ETFs is in the US retail market. You can see this by fund flows, active mutual fund net flows over the last three years a dramatic decline in relative net flows with \$500 billion coming out of active products in the last two years alone. And you can see exactly where those flows are going, they are going to passive products.

I would submit there are a lot of retail investors today whose advisors have sold them passive because they are only focusing on the cost of manufacturing, they are going to have a lot more beta when the market goes down 25%. They are not going to be happy with how they are positioned when that occurs. And so we believe a significant piece of this is cyclical.

Now there is a secular component to this, but we believe some of this is very cyclical. And you will see redemption rates, which have been really high retail business in the last few years, come down on the other side of whatever bear market that we will experience. And we will experience another one.

Another way to look at it, if you look at the top 100 managers on the left-hand side of the page, 72% of managers are in outflows in U.S. Retail. 76% of the top 50, 90% of the top 10 managers are in outflows. There's only one manager in that list that had inflows last year. That was MFS was the only active manager with inflows last year.

The second theme on this page is when redemption rates are as high as they are large is hard because you've got to sell a lot to offset a 27% redemption rate within the industry right now. The industry doesn't have a sales problem, it has a redemption problem and those redemptions are going to passive products which we believe a fair amount is cyclical, not secular.

All right, so let's talk about the case for active for our clients. And even before I do this, let me step back and just say the way in which we are talking to our clients about active is this is we say you need active in your portfolio for two reasons.

The first is return. We do point estimates for 10-year returns in markets and our point estimate for global equities over the next 10 years given the starting valuation point is 4.5%. We believe our clients if they buy the benchmark will make 4.5% in global equities in the next 10 years.

Investment grade corporate bonds we believe will return 3% in the next 10 years. So let's just say a blended return for the average client around the world over the next 10 years will be 4%. That is our expectation on return in the next 10 years.

Return and alpha is more valuable now than at any point in time in my career. Because 10 years ago when interest rates were 5%, 6% and equity returns were 8% to 10% anticipated, 200 basis points of alpha mattered but it wasn't as significant as 200 basis points of alpha in a 4% return environment. We should get paid more for alpha.

Now we are not going to. But alpha is more valuable for our clients today than it has ever been. And they need us if, in fact, we can convince them that we can drive return for them.

The second is risk. We talked about downside risk, but think of diversification. All clients diversify across stocks, bonds, local, international, growth value, large, small, they should also diversify across passive, active dimensions. They are different return strengths.

I just showed you. In down markets do you want to have beta, 100% beta to the market or do you want to have some active which cushions downside volatility? So thinking about risk and correlations active should be a piece of that portfolio.

We don't try and convince our clients to go all active. We understand why they use passive. We try to convince them why active is important in a portfolio context, and that resonates with our clients.



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Now the revenue opportunity within this, first let's look at assets. This is the US market, \$14 trillion. The reason I use the US is there's actually better data to show this than the non-US or the world rolled up.

\$14 trillion in management, two-thirds of it in active products, passive growing more quickly. But the vast majority of assets are in the active space. The global number, by the way is \$70 trillion per McKinsey.

So massive opportunity and penetration outside the US is less. So huge pool, \$50 trillion of active opportunity outside of the US.

Interestingly, though, on the right-hand side of the page is the revenue opportunity. Everyone loves the passive business but, by the way, revenues are a lot lower within that space and it's 17%. And as a data point over the last four years active fees, fee opportunities have declined 6%, passive has come down 25%.

And the reason for that is they are all cutting fees. And effectively they are going to cut fees to zero over time because Vanguard is going to continue to take cost down. They do not have a profit motive, they've got scale, they are going to continue to drive costs down. So while it's a great asset gathering, it's not necessarily a great business unless you are at scale.

Vanguard, BlackRock are at scale. Everyone else can't play in this space because they will never get to scale.

Another opportunity that we see for our clients in the active space is to get them thinking long-term, align with them and differentiate ourselves relative to others in the marketplace. So we go ask our clients and we ask them what is a full market cycle? Think about a market cycle, it's got to be an up and a down or a down and an up.

So the 10 year has the financial crisis, it's now got an eight-year market rally. That's a market cycle. You can't look at five years now because it's only been an up market.

Our clients understand this. 70%, pretty consistent around the world, believe a market cycle is seven to 10 years.

We asked them, how do you assess performance? 55% do it over one and three. 86% do five or less.

There is an inconsistency around how they think about a market cycle and actually how they evaluate their managers. What we try to do is align with those clients and we think we can differentiate ourselves across a market cycle and build a connection and build strength within that relationship with our clients.

As a point of fact, our average institutional client has been with us for eight years. So we've convinced our clients of the value we add across a cycle, the market average is six years. So we have built a 33% premium into the market because we align with our clients, we describe how we will perform on behalf of those clients.

And the way that we talk about it is at the end of a cycle, at the end of a bear cycle you want active because you get massive valuation dispersion in the market which creates opportunity. You then go through a period in a bull market where it's all about beta, which is the market we have been in. And you get to the end of a market closer today, we don't know where, where you are going to want active because valuations compress, everything is basically valued at the same level and you want to differentiate relative to the marketplace and that's where you drive active. And this is what we are talking to our clients about today.

And another thing we talk about our clients when we think about time horizon is this, and this is a study done in the Journal of Portfolio Management that shows hiring and firing decisions. So sophisticated investors, they are always looking at backward returns, short-term backward returns and what they do is they look at their manager in the blue and they say you have underperformed, I'm going to go hire a new manager.

They never buy a manager that has underperformed which, frankly, is what they should do if they believe in long-term. And over a short-term period of time they have underperformed, they go hire a manager and there's a 10% delta in performance, and then over the subsequent two-year



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period of time the hiring manager underperforms the fired manager. And we try to communicate with our clients around decisions that they themselves make that damage returns and why they should align with a firm like us that thinks long-term and can compound and add value for them.

Why MFS? For our clients. Our strategy at the firm is built around two key objectives that we need to do on behalf of clients, but there are four tenets to it.

The two things we have to do well is alpha and stay focused on alpha and, two, building strong client relationships. Clients used to want to show up every quarter and present the performance. Today they want a fewer number of trusted advisors like us managers but we have to go deeper.

They want our thoughts on asset allocation and macro trends and Brexit and what's going to happen with elections in Europe and we've got to go very deep with those clients. The benefit of that is if you are one of those key partners they are going to keep you longer. And the economics on that, the NPV on that is very high.

Client service will continue to drive. We think that we can grow in the market and I will talk about how you can do that through a cycle.

And then, finally, the biggest asset at the firm is the people at the firm. We want to ensure we have the best quality team, we are retaining high-quality teams, we are managing succession so if we have change at the organization there is very little business impact to that.

The alpha engine we have built around the world is right here. It's built around four keyed differentiators.

The first is the 250 people, the platform, the research platform sitting in nine locations around the world. That's a key differentiator, our clients value that, our competitors envy that, it's taken us decades to build that.

The second is teamwork is the way in which you leverage that platform is to incent and have good people that realize they need to work as part of teams, they need to share information around the globe to the benefit of all of our clients irrespective of the product that we are managing and the geography that we are managing for them.

The third time horizon, we have built long-term discipline at the firm which is really hard to do in an increasingly short-term world. We evaluate and pay the staff on three- and five-year performance, and for managers that have a 10-year record we take that into account. We do not get caught up in trading the fourth quarter last year after the Trump. We've been doing the opposite of what the market was doing.

Then finally, risk management. We've got a very robust risk management framework that we wrap around that to ensure when we make a mistake or when we underperform we don't massively underperform so that we can't get back performance and/or blow up a client and tarnish the brand or the organization.

Products, we are a long only active firm with a product set from, this is a risk continuum at the top of the page. We don't run passive product, we run blended research, risk control, fee-sensitive product on behalf of clients and then a variety of products both in fixed and equities across the continuum and then we are not going to do some of the other specialty alternative areas.

Now our clients have interesting private solutions, private market securities, as well. We are not going to provide those products. That's what SLIM is going to provide.

So we can bring public solutions to our clients, SLIM can bring private market solutions to our clients. We don't believe that's core to what we do, and we believe if you think about all of Sun Life SLIM will provide the private exposure in alternatives, MFS will provide the long only active. Then we have a variety of vehicles to deliver that.

What's the proof statement ultimately is how have we performed in those products on behalf of our clients. Let's go to the 10-year. Virtually all of our products have outperformed our competitors over this 10-year period of time.





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Why am I focused on the 10-year? That's a market cycle. We had a down market and we've had an up market over this period of time, and almost all of our products have outperformed over that period of time.

Take the five-year, in the five-year it's been an up market with very little dispersion. We have outperformed relative to the competition.

What about relative to benchmarks and the passive risk? 94% of our strategies after fees have outperformed for our clients over the last 10 years, 94%. 80%-some over five years.

So not only are we benefiting our clients relative to their alternatives, we are beating the benchmarks in an environment where it's been hard to beat the benchmarks. And at the bottom of this page I show this to give you a sense of the risk management. Less than 5% and 1% and 2% of our five- and 10-years of our products are in the bottom quartile.

When we underperform we don't blow our clients up. We are still in the game waiting for that market volatility to allow us to compound returns on behalf of our clients.

I'll talk a little bit about the fourth quarter. There were some questions around that from a performance perspective. It's actually really Brexit in the fourth quarter.

What the market traded post-Brexit in the fourth quarter was beta, low ROE, cyclical rally in the marketplace. If you look at small and large as an indicator of risk, small cap outperformed by 10% in the second half, 9% in the fourth, high beta to high quality so low ROE, high beta relative to high ROE, low beta. Low-quality outperformed by over 10% and, again, 3%, 4% in the fourth quarter.

And then just think about beta, just beta. High beta stocks outperformed low beta stocks in the second half of the year by 25% during that period of time. And it was 10% in the fourth quarter.

That hurt our performance. Those aren't the types of stocks we own. We are going to look through the cycle.

And the reality of it is underlying the market environment in the first quarter even though it's up and volatility has come down, that Trump rally you are starting to see it rotate back to the types of companies that we own. Not only are we outperforming competitors in the first quarter, we are outperforming the benchmarks again in the first quarter.

We are going to look through this. We are selling high beta stocks in the fourth quarter and we were buying low beta stocks because we didn't think it made any relative valuation sense because as I showed earlier, fundamentals will ultimately matter.

This is one of the decks that we put in one of our large portfolios, global equity to indicate exactly what I have talked about in terms of how we've performed for our clients. On the far right-hand side of the page we've been running this strategy for 29 years.

Every quarter over the last 29 years you can see the performance. So we have outperformed more quarters than we've underperformed, we've compounded returns for clients 80 basis points a quarter, over 300 basis points a year of alpha.

Now if global equities returned 4.5% and we can compound an additional 3% for our clients, should they pay us an active fee for that or should they buy the benchmark and pay 3 basis points? Pretty obvious what they should do.

Moving to the left, in markets that rip higher in a quarter, the Trump rally in the fourth quarter, we've underperformed on average 90 basis points in those quarters. That happened in the fourth quarter. It was a little bit more than that.

In more tranquil markets we actually outperform and compound 80 basis points. And in markets down more than 5% a quarter, those are risk-off environments, we outperformed significantly during that period of time. We compound returns in down markets, and that's how clients should think about us through an investment cycle.





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Let's talk about the mix of the business. You can see it's well diversified by product type.

What I would say, and it lends itself to our strategy to build out fixed income and it's twofold. One is it is a massive pool of assets globally. It's bigger than the equity pool of assets that we've grown over the last 10 years.

And the other is it allowed us to diversify the business and buffer the volatility of our P&L when equity markets correct. So one of the keys to balancing this out more is to grow global fixed income.

Diversity of sale by product type. I don't think you could find another firm as large as us that had 25 products of \$1 billion in sales last year. We are not a one product firm.

We sell the firm, we sit across the table from a client, we identify their needs and then we position whatever product that fits relative to their asset allocation. And we are selling the firm and diversifying the sale.

If you look at the mix by channel, again really well diversified business. 50% of the business institutional, 50% of the business is retail currently. The preferences by channel will come and go.

Post-financial crisis of all of our growth was in the institutional channel. Retail investors did not care about buying equity products in 2009. Institutions had an asset allocation.

We significantly scaled up the institutional business. Today we are repositioning our institutional business and the net flows are coming in the retail business. So having good balance through a cycle positions us well.

Our US retail business, you can see it by strategy and then you can see we are partners with all the major clients and advisors in the US market. What's happening in the market, and the reason our share is going up, as the business moves from brokerage transaction to advisory, and this has been going on for the last 10 years, it accelerated last year with the DOL proposal, the fiduciary proposal, we have a higher share in advisory than we do in the commission business. Because of the strength of our process our performance and our product set we are very well positioned on every one of these platforms, and that's why we are growing marketshare in the market currently.

Our institutional business, again by asset type and then ultimately with the consultants that we have on the right-hand side of the page, we have relationships with all the major consultants around the world, very important regional consultants. JANA you'll see on the right-hand side of the page is a very, it's the largest consultant in the superannuation market in Australia, we have a very good relationship with them. And we have approved product with all these consultants so that when they go to a client and recommend an asset class we are one of the managers that they are recommending into those clients.

When you look at it by geography, again relatively well balanced. If you went back 20 years ago we were 100% US. We have significantly scaled up the non-US business and want to continue to do that, again because it better balances the business through this cycle.

So I know we will talk about what you really care about, which is relative flows and how the firm and the path back to positive flows. And let me start by channel. US retail, in the 92 history of the firm last year we had a record sale, gross sales year in a really challenging environment, up 15% on the prior year. We do not have a sales problem.

The middle of the page, redemptions were up last year. The industry currently has a redemption problem. Redemptions are running in the high 20%.

These are industry redemption numbers. Ours are lower, but nonetheless are relatively high as that money moves from active to passive. We think a fair amount of this is cyclical, and we think it will come back.



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We had net flows but down the prior year. Our non-US retail business last year, sales were down, redemptions were up and the net number year over year was higher. What was going on?

We were net flat in flows through the middle of the year and then Brexit happened. Clients' sales came down, redemption levels went up. We saw them normalize in the fall and then Trump was elected.

And the Europeans didn't feel so good about that. Sales came down, redemption levels went up, we continue to see challenges there because now you got elections in the Netherlands, in Germany and France, risk tolerance in that market in Europe right now is very low. But eventually this market will normalize.

It won't be in outflows forever. So we think that will normalize. I will talk about that.

The institutional and our sub-advised business in managed, actually sales were up last year and redemptions came down. We still need to get that closer to a zero number. And I will talk about how we are going to do that.

The challenge for our institutional business, though, has been this is we were so successful, raised so much money we had to close the strategies that clients around the world wanted. ETFs are not taking share in global international equities today. It's in US categories.

Our capacity is in US categories, not global international, because we have scaled up so much. We need to protect our clients in those products because if we could have raised tens of billions more we would not have performed well, we would have lost the money that came in in addition to a lot of the other money that has already stayed in the firm. And so that has hurt that business, and I will talk about how we are repositioning that business.

So what is the path back to flows? Normalization of retail redemption rates. If I take the five-year average of retail redemptions, not take the low, now let me give you this, in 2013 retail redemption rates were lower for MFS, we did less in sales and had 16 billion in net flows. That's a 15 billion delta to last year.

We would have been in positive flows last year. But if I take the average redemption rate in the US and non-US over the last five years against our business and I say that's normal, that's a 7.5 billion delta on flows. And that gets us pretty close, much closer.

If I normalize sales in the non-US channel, which is 3 billion, that's 10.5 billion of flows, if we think we get back to something that's more normal relative to last year. The institutional business, again, we are repositioning it. In blended research we've talked about it, the fixed income opportunity is massive we believe.

It's not we are fully launching that business this year. We don't think we are going to see a lot of traction until next year. But that's something that we think that could provide flows that get us back to positive flows.

The fourth would be capacity management. We've restricted 13 strategies at the firm in the last five years to protect clients and to protect performance. Up until 2016 our net flows in that business were slightly negative, slightly.

So where we were being redeemed was not in restricted strategies. Because of reallocations last year we did see more redemptions in that restricted book. We are being more flexible in some of those strategies.

To offset some of the outflows we are going to open up some of those strategies where it's appropriate. We have done it historically. We have been successful at doing that.

But I will caution you, that is not to say we are going to bring in tens of billions of dollars. We want to offset flows and let some of these other drivers be the delta to get us back to positive flows.



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But we think as we look, and we think it's going to be on the other side of this cycle. We've got to get through a bear market, the industry does, to normalize. But we think once we get through that you are going to see a normalization and we can get back to net flows.

Let me close with we didn't do a lot of financial analysis on this, and the reason we didn't is we wanted to talk about the business and the drivers and flows because the business is pretty easy to model. But let me talk about how we think about the business. And I get the question every quarter on margin, we don't think about the business in margin terms.

Here is how we think about the business. Over the long-term, let's just use the next 10 years, if we are right and you get a 4% return, a blended return in markets, what's great about this business, most businesses don't get natural revenue growth. Our revenues, if we have 0% organic, will grow 4%.

Just naturally, every year we get 4% revenue growth. Very few businesses have natural revenue growth.

If we can drive 1% to 2% organic, which we believe we can, when the business normalizes that's 5% to 6% top-line growth, you get operating leverage in the business because we are not going to grow expenses at that level, you can drive high single digits to low double-digits earning growth. So you get earnings growth, a very high ROE business. There is very little equity, there is no capital held in the business and all of the net income converts to cash.

It's a high cash generative business which allows us to dividend to Sun Life and allows them to pay their dividend or increase their dividend over time if we are able to execute on that strategy. And I think investors don't appreciate looking at the business through the cycle.

And we get the question every quarter on the margin and flows, you can't manage this business over the short term. Clients have long-term needs. We have to manage it long-term on behalf of our clients.

Our clients will redeem us at times in quarters. We don't know when that is going to occur. As long as we are adding alpha on behalf of our clients they will hire us.

We have to ensure we have the right products for them. And if we do that successfully this is a business that will generate cash, high returns and it will grow earnings through a cycle.

So with that I'm going to stop and take questions.

## QUESTIONS AND ANSWERS

### Unidentified Audience Member

Mike, you started off your presentations talking about 70% of your clients value the active management. How concerned are you about the other 30% in terms of not valuing or not valuing as much on the active side? Are those assets at risk?

**Mike Roberge** - Sun Life Financial Inc. - CEO & President, MFS Investment Management

Well, I guess I'd take the vast majority of one active management. But I think some of that 30% when we go through a 25% correction that number is coming down. That passive number is coming down.

But there is a \$50 trillion opportunity around the world, and if 70% of those clients believe in it I'm not worried about the 30% that are going to go passive frankly. The opportunity is just so large.



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**James Shanahan** - *Edward Jones - Analyst*

Hi, James Shanahan, Edward Jones. A question for you about active managers, the stocks of these companies in North America are relatively cheap given all the issues that you have addressed. Is there a franchise out there or a business model that is attractive to you where a Company might take advantage of an opportunity, for example, to add fixed income or add a geographic footprint that's not currently represented on your platform?

**Mike Roberge** - *Sun Life Financial Inc. - CEO & President, MFS Investment Management*

Good question. Yes, I do believe the market is underappreciating the cyclical nature of what's happening currently. So the market believes that passive is going to take all the share in the marketplace which they are not, it's just not going to happen.

As we think about M&A in the business I would tell you this. We do not have at all an M&A strategy for the firm. We are going to grow the business organically.

And I will tell you why there are two ways to think about M&A. There is a multi-boutique model, which is a firm goes out and buys a series of boutiques, they keep the culture of the firm intact, they allow autonomy and they try to leverage some expense and revenue synergies across the organization. There are multiple examples of success in multi-boutique and, frankly, that's what SLIM is doing with near-term success in doing that.

There are very few examples of firms that have done integrations where you can show a success. And the reason for it is you put two different cultures together and you have to go convince the clients that it's good for them. So think about the Janus Henderson or Standard Life Aberdeen deal, those were P&L deals.

You put two firms that are struggling together, it doesn't benefit the clients. What it does is it benefits the owners of the firm because it creates P&L for them. It allows them to better scale up and leverage the firm.

The first question you have to ask yourself in an integration is does it benefit the client, and rarely does it benefit the client, and the second is will the firms be more successful post integration? And there are few examples of that.

The day of the Janus Henderson merger the stock popped over 10%. From that deal announcement through last Friday Janus stock has underperformed asset managers by 25% to 35% since the deal was announced.

So does the market believe in it? I would argue the market is saying that's going to be a really hard integration to pull off. Because what happens when you announce that deal is outflows accelerate because many clients look at it and say listen, this may be good for you but I'm not going to stick around because if you make a mistake I've got a fiduciary duty to my clients and clients leave, a significant amount of clients leave and they will come back if they believe in it but they are going to come back three years later.

And so integrations are very hard to do. The most important thing in this business, and I talk about the financial profile, do no evil to the existing business. Because if you do something and you harm the natural business you've given up all the benefits of the business through the cycle.

And that's our fear is by doing something dramatic all you are going to do is put the existing business at risk. It's a great book of business.

Now it's being challenged currently in the environment. But, listen, there is a pathway to getting where we need to be, some of which we can pull, some of which we think is the market environment.

**Sumit Malhotra** - *Scotiabank - Analyst*

Sumit Malhotra, Scotia Capital. I agree with a lot of what you said in your industry comments about active and passive, and I'd say that to you even if we didn't have so many talented active managers in the room right now.



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But you didn't talk that much about financials and at the end of the day that's what a lot of us care about. Dean has laid out 8% to 10% EPS growth as the target for the Company. MFS is 30% of the Company, and we've had two years of good market conditions with lower financial contributions from MFS.

So at what stage, keeping all of this long-term, do no damage to long-term MFS in mind, at what stage does management of margins reining in investment spend to make sure that we are getting growth out of this business become a bigger talking point for management of Sun Life?

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**Mike Roberge** - *Sun Life Financial Inc. - CEO & President, MFS Investment Management*

I think it's time horizon dependent. So imagine if you get 4% top-line growth over the next of five to 10 years, we can grow 1% to 2% organic, we are going to get into that 8% to 10%, MFS will be in that 8% to 10%.

Now you may question whether we can deliver on the 1% to 2%, assume that we are in agreement on the 4%. We think that we can get there.

We have been investing in the business over the last couple of years, technology, so we are implementing a new CRM system, a new order entry system. We think those are investments, they are not discretionary. We have to make those business, those investments to support the business.

And then we are also investing in growth initiatives, so the fixed income build out. But we are going to continue to invest in that.

International expansion where we can, we are opening up a rep office in China this year. And so we have the large sovereign wealth funds as clients, but we want to further penetrate the market, the insurance companies and some of the bank platforms in China. So we are going to continue to invest for growth because we think that we are going to have to invest to get the 1% to 2% organic and we think the business will normalize.

So we are actively managing discretionary expenses where we can, we are watching the headcount closely. We are looking at advertising. And, frankly, if earnings are challenged a fair amount of the expense base's variable compensation comes down through that period of time.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Just to wrap it up here, your margins two years ago in this business were 41%, last year they were 36%. If you have an environment in which the flows take a while to get back to a level that you'd be happier with, do you feel 36% is as low as they go? Or is there more incremental downside pressure as a result of these investments that you are willing to sustain?

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**Mike Roberge** - *Sun Life Financial Inc. - CEO & President, MFS Investment Management*

Yes, there's two things going on. There's our investment spend and then there's pressure in the industry around organic growth and fee rates which, again, they have declined 6% in the last four years.

My guess is we will look at in four years they will be down another 6%. I think you are going to continue to see some degradation.

I think the question to ask, ultimately, first is what do industry margins do? So when we were printing high 30% margins we had a spread to the industry, when you look at the average McKinsey and Boston Consulting puts out we were running 500, 600, 700 basis points spread to the industry in margin. Ours today is 500 to 600 to the industry.

We still have a massive premium to the industry. It has come down some because of the investments that we are making, so we think that we can -- and that's why, and you hear it on the earnings call and trying to do it in the context of the industry. We think we can keep a spread to the industry.

What we don't know is what industry margins are going to look like in the next three to five years. Will we cut investments that benefit our clients to bring the margin up? The answer is no.

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It's not the right thing for the client, it will not build long-term, sustainable value for Sun Life. It may help in the short term. I guarantee you it's the wrong decision to make over the long-term.

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**Paul Holden** - CIBC World Markets - Analyst

Paul Holden, CIBC. So on that topic, the question I want to ask is how do you keep employees as motivated as possible then in this type of market environment and cycle when you are seeing the consistent net outflows?

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**Mike Roberge** - Sun Life Financial Inc. - CEO & President, MFS Investment Management

Good question. Those of us that have been doing this a long time get the business cycles. We have been through multiple cycles at the organization, and you put your head down and you make your way through the cycle.

The bigger risk is around the younger people, how do you get them to come into the business relative to alternatives and then how do you keep younger people in this business? And it's just constant communication, and it's doing exactly what we did here which is this is a really good business. It generates really high margins and, yes, it is a more challenged business than it was historically but this is a great business.

So the S&P is going to, the operating margin of the S&P this year is going to be 11%. We put up a 36.5% margin last year. This is a good business.

And so it's really communicating with them the strength of the business, the franchise that we've build out and why we will continue to be relevant on behalf of clients. And by the way, when you look over the last five years and you look at voluntary turnover at MFS it is below 3%. The industry runs 15%-plus.

So it isn't just about money, it's people feeling like they are in an organization where they value what the strategy is on behalf of the clients, they align with that and they are excited about coming in and executing on behalf of clients. And I think we've been able to do that.

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**Mario Mendonca** - TD Securities - Analyst

Mario Mendonca, TD Securities. Your presentation you seemed to imply that we may not see positive net flows until we are through the bear market.

I thought I heard you say that near the end. So given that we are not really through the bull market, it seems like you are extending the outlook for positive net flows for a little while.

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**Mike Roberge** - Sun Life Financial Inc. - CEO & President, MFS Investment Management

When I look at the industry, all I'm saying is from an industry perspective, forget about the institutional business, that is not going to be driven by what side of the market we are going to be in. So if we can, in fact, bring down redemptions in the institutional business as we've repositioned the business that's not at all industry dependent.

In the retail business I believe the industry will not get back to positive flows until the other side of this market. We've been able to generate flows. And I think we will be able to but I think the industry will be challenged until we go through a period of volatility and downside in the marketplace.

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**Mario Mendonca** - TD Securities - Analyst

That wasn't a comment necessarily about MFS.

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**Mike Roberge** - Sun Life Financial Inc. - CEO & President, MFS Investment Management

That is not at all a comment about MFS.

**Mario Mendonca** - TD Securities - Analyst

Understood. Thanks.

**Mike Roberge** - Sun Life Financial Inc. - CEO & President, MFS Investment Management

And then what I'd say is from 2009, the cycle of 2009 through 2016 if you look at the amount of money that we've brought in in US Retail relative to our AUM at the beginning of the period was 95%. 95% of that period of time's assets we brought in net flows, the industry brought in 23%. So that's the delta that we were able to outperform relative to the industry.

I think we will continue to be a delta relative to the industry. But what I'm doing is I am just cautioning you on what the industry number may look like. If redemptions stay at 27% at \$200 billion we have to generate \$54 billion a year in sales to be net flat.

So I'm not saying we can't do it. But if the redemption rate was 20% we'd only have to generate \$40 billion to get to net flat flow. So when industry rates normalize we will be back and we think we will be solidly in inflows in US Retail.

I think the probability that it's five years away is pretty low. I mean that is the fear everyone has is this is a five-year, it's going to take five years. This market is not going to go up for five more years, it's already the second longest market expansion in history.

Any other questions? Great, I appreciate your time.

I've got to -- that's right, I've got to call up Kevin. So I get to bring up Kevin Strain next.

So Kevin has traveled around the world for 24 hours in Toronto. So I figured I better get him up here before he falls asleep. Kevin Strain.

## PRESENTATION

**Kevin Strain** - Sun Life Financial Inc. - President, SLF Asia

Well, thanks, Mike. And Kevin Dougherty started out with the two official languages in Canada, so I thought I would start with good morning, zaoshang, ni zao, magandang umaga, selamat pagi, [chow em, chow chi, chow un], and I don't know how they are going to transcript that. But, anyways, we will see.

So it's my great pleasure to be here in Toronto despite my 24-hour trip that Mike mentioned to talk about the growth that we've had in Asia and to look forward at our strategy and how we will continue to become a bigger and bigger part of the Sun Life earnings. The biggest things that happened in Asia started in 2012 when Dean made us a pillar, and that put the entire organization behind Sun Life in Asia and helped us get support from the corporate office, from the fellow executive team members and from the whole of the Company.

And at the time, Dean described Asia as a place where we were playing not to lose versus playing to win. So over the past five years we've strived to create a winning culture focusing on adding new countries, building scale in our businesses, upgrading our talent and investing in our brand.

So in 2012 we had been in Asia for over 120 years but were still much too small a piece of Sun Life overall. So you will see the changes we've made and the growth that we've had.





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If you look at our five key messages, the first message is that Asia is the fastest-growing pillar of Sun Life and we are becoming an increasing part of underlying earnings, sales and value of new business; second, our growth has come across all five of our markets; third, we will continue to grow at a pace that's faster than the Company's 8% to 10% medium-term objective based on the demographics and our focus on distribution excellence; and fifth, we will focus on underlying ROE, improving it to double digits over the medium-term.

Our theme of distribution excellence in high-growth markets continues to see, continues to be perfectly aligned to Client for Life and continues to be the core of our strategy. We are in seven markets in Asia. We are in Hong Kong, the Philippines, Indonesia, Malaysia, Vietnam, China and India.

These are the right markets with over 3 billion people living, studying, buying homes, investing, in essence living their lives in these markets. And they are defined by a rapidly growing middle class and an underpenetrated insurance market with only 2.3% ownership of life insurance across our seven markets.

We have leadership positions in Asia including the number one life insurance business in the Philippines, the number three asset management Company in the Philippines, the number three asset management Company in the Philippines. In Malaysia we have the number three bancassurance business. In Hong Kong we were number three for net flows for the MPF, Mandatory Provident pensions business.

In India we are number one for group and we are number four asset management Company. And we have strategic assets including our 14 million clients, our 95,000 advisors, our joint venture partners, our bancassurance partners and our new telecom partners. In short, we have a strategic footprint that's prime for growth.

And we have a proven track record. On executing on bottom line and top line, our insurance sales have more than doubled. This growth was driven by investments in distribution, attracting strong distribution talent and, importantly, we have focused all of our distribution channels on quality.

Our wealth sales have grown at a 15% CAGR. Our underlying earnings have almost tripled since 2012 as we focused on high VNB sales and built expected profit significantly over that term, almost doubling expected profit and reducing expense gap, reducing new business strain. And our VNB increased five times as we focused on mix, quality sales, reducing expense gaps.

So we have seen significant growth across all the key measures of sales in both life insurance and health insurance, underlying earnings and value of new business.

We accelerated this growth with disciplined acquisitions investing nearly \$1 billion in acquisitions since 2012. We added two new markets, two new countries in Vietnam and Malaysia. We increased our stake in India, we are acquired 100% of our joint venture in Indonesia and we extended our distribution agreement at the same time with CIMB Niaga, the country's Indonesia's fifth biggest bank.

We added scale, we added distribution strength and we invested in our businesses right across Asia including our MPF business in Hong Kong. These acquisitions deepened relationships with important partners, as well. We have been disciplined in our acquisitions in a time when acquisition prices have been lofty, and in the past year we have focused on businesses that we knew.

So if you look at our acquisitions in 2016 we bought two pension businesses in Hong Kong where we were the administrator of the business. We knew those businesses, we knew the partner. We increased our share in our joint venture in India.

We bought out our joint venture partners in Indonesia and in Vietnam. All of these businesses we knew, all these businesses we understood deeply and we are able to leverage relationship in terms of doing the acquisitions.

Our strategy is very aligned to Dean's Client 2020 strategy. In fact, we've wrapped the Asia strategy around Dean's 2020 strategy, focusing on distribution excellence, building a strong suite of products and building out our brand strength.

So in each of these areas we continue to build out pieces of our strategy. And by wrapping the corporate strategy we are better able to leverage what's happening in Canada, what's happening in the US and what's happening across the Company.





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And we have a tremendous opportunity. So even at 14 million clients, we are a very small percentage of the people who live in these countries, the over 3 billion people. And you can see from this that there is a tremendous opportunity for us to grow.

We are in the right markets, this is the right time to be in these markets. There is a rapidly growing middle class which is estimated to be over 3 billion by 2030. Our seven markets have a total population of over 3 billion and the GDP per capita is growing rapidly, so we are in the right markets at the right time.

And we are intensifying our focus on client. So you can see here we have developed a client journey that talks about speak to me, understand and know me, welcome me, care for me, deliver on your promise and surprise and delight me. We have wrapped this client journey around Dean's, the corporate strategy of proactive contact, easy to do business with problem resolution and creating the perfect product solutions, and I will talk about each of these a bit more with each slide.

And we've been creating incredible digital assets at the same time. So we have created a mobile app for clients in the Philippines, Indonesia, and Malaysia and are developing one in Hong Kong. This mobile app we have been able to create leverage points, as well.

So on the mobile app we first created in the Philippines, rolled it out last July and we are able to within 100 days roll out the same mobile app in Indonesia. So we were able to create leverage points across this as we invest in digital. And for advisors we are creating a full financial needs analysis, product illustration, electronic application and an advisor toolbox that will all be on a mobile app, also available on the website.

So we are able to create these assets in a leveraged way. We are able to create them for one country and then roll them out across the seven countries, five and then leveraging the other two joint ventures. We are investing 10 million to 15 million per year in our digital strategies, and this makes us a big percentage of what's happening on the digital front.

Our Asia distribution strategy relies on multichannel distribution. And if you see the chart we are in agency in six of our seven markets, bancassurance in five markets, brokerage in four and digital distribution in six markets.

Growth since 2012 has been at a 22% CAGR and more than doubling our sales. And the foundations of our sales continues to be agency, though. And our focus in agency is on quality and creating the Most Respected Advisors in Asia, but at the same time diversifying that across bancassurance, brokerage and digital.

For agency we've had a very strong focus on quality and we've rolled out a strategy across Asia called Most Respected Advisor. This focuses on four key values that we are trying to develop in our agency: caring, professionalism, winning and inspiring. Caring talks about serving well and understanding your clients and their needs; professionalism is about having well-trained agents and advisors that gain the trust of their client base; inspiration talks about the fact that we want agents that carry the Sun Life name proudly, that are inspired and that inspire their client base; and winning is becoming a bigger and bigger piece of the business.

If I had a chance to take you to one of our agency events, for example in the Philippines, I think this group would be blown away by the professionalism, the energy, the passion, the love of Sun Life inside of our agency force. And these strategies across Asia have helped us grow with a number of MDRT, Million Dollar Round Table, agents we have by 44% and increase the number of active agents over the time by 29%.

And the proof is in the numbers. If you look at the agency across Asia, we have the number one agency force in the Philippines with a 115% increase in the number of active agents since 2012 and a 93% increase in sales.

In Hong Kong we have 15% of our agents who qualify for MDRT, a 35% increase in the number of active agents since 2012 and 59% increase in agency sales. In Indonesia we increased our sales 127%, surpassing 10,000 advisors for the first time and our agency sales increased 160% since 2016.

In China we had a 22% increase in agency sales since 2012. And in India in the last two years we've grown rapidly at 21% since 2014. So we have a growing agency force right across Asia.



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We also have strong bancassurance relationships with top five banks in three markets and the number six bank in the Philippines, RCBC Bank. We have used the joint venture structure to drive alignment. So in China, in the Philippines and in Malaysia we have a relationship with our joint venture partner and the bank which drives alignment to the goals of the bank.

So that's really important in the bancassurance space. And we've seen a major step forward in our bancassurance sales in 2016 as we acquired the business of CIMB Sun Life in Indonesia.

So we are seeing good growth. We see great stuff happening in our bancassurance space. We have been building out our digital distribution capabilities. We have been building out our support and our management teams and we are seeing the bancassurance grow at a good pace.

We are intensifying our focus on health and accident. We recognized in 2012 that we were lagging our competitors for health and accident sales. In 2012 H&A was only 8% of the total insurance sales for Asia and in 2016 we've grown that to 16%.

We have done this by investing in product development, investing in sales concepts and sales tools right across Asia. And we've more than -- our sales in health and accident have been at double the growth rate that our sales of the general life insurance, a CAGR of 49%.

So this has been done by adding new product, and new products like in the Philippines we added a product called SUN Fit and Well which is a new generation of life and health product that covers both the, all four of prevention, diagnosis, treatment and rehabilitation. And we expect to see health and accident grow at a faster pace than the rest of our businesses, getting close to 20% of our sales by 2020.

At the same time, we had been growing our wealth businesses. We have wealth businesses in Hong Kong, India, the Philippines and China. Our largest wealth business is in India where we are the number four asset management Company in the country.

Our investment performance there has been fantastic. We have a strong distribution system and we have great support from our partner and a strong brand.

And, in fact, we have been able to leverage MFS. Mike himself spent a week in India helping to train on investment performance, research capabilities, those types of things. So we have been able to leverage MFS in a number of our businesses on the wealth side.

Our Hong Kong MPF business has had strong performance with nine of the 10 funds in the top quartile since 2000. Last year we completed the two acquisitions I mentioned earlier in our MPF business. And in the Philippines we have the third largest asset management company, we started that from scratch in 2000, and in China one of the largest insurance asset management companies that we started from scratch in 2012.

And we've been investing in our brand and growing brand awareness. Brand awareness is really important in Asia. We are now the sixth ranked insurance brand, and Dean mentioned that in his presentation, up from ninth in 2014.

We have been the fastest growing insurance brand since 2012. We have a strong brand in the Philippines. We are the only financial -- or the only insurance Company that's in the top 100 brands in the Philippines.

We have been using programs like wellness, runs, the Stanley Dragon boat, walks, different wellness activities to build the brand. And we have also been using social media.

So in Indonesia we now have over 1 million fans. We have been using bloggers, we have been using social media to build the brand. And if you know anything about Indonesia and the Philippines, Indonesians and Filipinos are among the most active social media users in the entire world, and so this is a great way to reach out and get more brand awareness.

We have leveraged Money for Life. And so one of the things we want to do if you think about Most Respected Advisor is build plans that cross life insurance, health insurance and wealth management products.



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And Money for Life is a good way to do this. We have taken a lot of the concepts from Canada and brought them into our five markets and this is helping us to build our brand.

And we are also very focused on ROE. We have grown the ROE from 5.8% to 7.5% since 2012. That growth has come from building our earnings.

So as we have built the earnings from just over 100 million to almost 300 million we've seen the lift in ROE. We have had capital investments in our acquisitions that have been a slight drag to our ROE as we got to the 7.5%.

As we look into the future we see our earnings growing at a faster pace in the mid-teens, faster than the medium-term objective. That will help us to grow our ROE towards the 10%. And there is also on top of that some capital efficiency, in essence getting some more dividends back into the Corporation here in Toronto, that will improve the ROE to the 10% over the medium-term.

This ROE I should point out even at the 10% on the graph here is at 100% equity basis. So the calculation of ROE historically for Asia has been at 100%, and so that an unlevered ROE. If we were to use a levered ROE at the end of 2016 at a 75/25 ratio the ROE for Asia would be closer to 10% around 10%. So there is a number of things we can do to grow towards the 10% ROE getting into the double digits, primarily growing our earnings faster than the organizations overall at the mid-teen level.

So we've built scale in the pillar over the past five years. We have grown this widespread across all of our countries growing earnings, value of new business and sales growth.

Our Asia strategy is going to see us continue to grow. So this growth isn't going to stop. After this past five years we continue to see growing faster than the organization.

We are going to put clients in the middle of everything we do, investing in digital, data analytics. And we will strive to create a sustainable shareholder value by improving the underlying ROE to double digits over the medium-term.

And with that I will open it to questions.

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## QUESTIONS AND ANSWERS

**Doug Young** - *Desjardins Securities - Analyst*

Doug Young, Desjardins. So first off, obviously, there's been discussion about change to ownership rules in China. Can you talk a bit about how that impacts or fleshes out your strategy there?

And second, just talking about the ROE to 10% over the medium-term, what's the potential ROE for this business longer-term? Because I would imagine it's beyond 10%, if you can talk about that. Thanks.

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**Kevin Strain** - *Sun Life Financial Inc. - President, SLF Asia*

So I will start with the first question, Doug. So in terms of China you probably know when we sold down to just under 25% we became a domestic company in China. And we are also partnered with a very large financial institution.

Everbright Group and in particular Everbright Bank is one of the top 15 banks in China. They have over 45 million customers. They are very serious about getting bigger in China and potentially IPOing the business someday.



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So as we look at China the chance of us buying up inside of the joint venture I think are somewhat limited because we would have to transition from a domestic player into a foreign JV. There are other opportunities that could present themselves in China and like the rest of Asia we are pretty plugged in to what's happening on the M&A front. I don't think there is any M&A that happens in Asia that we don't hear about today.

And so if there were other opportunities that hit our hurdle rate as disciplined acquirers we would consider those. But at this point I don't think that it's going to have a big impact on us.

And the second question around ROE, so from an ROE perspective I think you can see the lift we are getting on the earnings side. There is some chances to accelerate the capital efficiency. But as we continue to grow earnings I see it moving past the double digits and continuing to be a bigger and bigger piece of the overall Company's ROE.

So there's the VNBs in Asia are fundamentally strong. And so if you can find ways to grow and grow your mix in the right way and have that strong distribution quality, there is all that potential to continue to move your way past the 10% into higher ROEs. But our ROE is, again, as I said the one we are showing here is 100% equity, based on 100% equity, fully allocated costs of our corporate office and includes all of the goodwill and intangibles from our acquisitions. Tom?

Tom MacKinnon

Kevin, what percent of these Asian earnings would you be able to send back to the home office and then what is the historically and then what is the plan going forward? Is there any trapped capital there?

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**Kevin Strain** - Sun Life Financial Inc. - President, SLF Asia

Yes, yes, historically I'm not sure of the actual number we've been sending back, but I think there is a chance to send back more and more. We would ultimately want to get to the 40% to 50% range that the Company range is. That may take some time, but there is the potential to send more capital back to the corporate office.

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**Humphrey Lee** - Dowling & Partners - Analyst

So Dowling Partners, Humphrey Lee. You just mentioned that you would continue to look for M&A or look for potential opportunities. In what area you are focusing on are you are most interested in?

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**Kevin Strain** - Sun Life Financial Inc. - President, SLF Asia

Yes, we are mostly looking at the seven markets that we are already in, looking for chances to build scale and build distribution strength in those seven markets. We are not afraid to add new markets, but they'd have to be the right opportunity. So we did add Vietnam in 2012.

We added Malaysia in 2013, but that's not a focus. Our focus would be scale in the seven markets and more rapidly getting to scale. Because we do have expense gaps still and the quicker we can get to scale the quicker we can release some of those expense gaps into earning.

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**Humphrey Lee** - Dowling & Partners - Analyst

And then a second question related to China. There is definitely a lot of discussion about pension reform and potentially opening up the market for foreign companies to participate in the pension market there. Can you talk about the opportunities and maybe your aspiration in that in the Chinese pension market?



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**Kevin Strain** - Sun Life Financial Inc. - President, SLF Asia

It's something we have looked at quite closely. We are a big player on the MPF business in Hong Kong.

It's probably, again, it would be a new business for us and it would probably be a new business either with our partner or going into it alone. I would say that it's one that we would assess, but it's not high on the priority list.

Any other questions? Okay, good, I'm going to turn it over to our CFO Colm Freyne.

## PRESENTATION

**Colm Freyne** - Sun Life Financial Inc. - EVP & CFO

Well, good morning everyone. I think Kevin has picked up a couple of new languages since he met with you here two years ago. If I could move us to the financial section which is really a little bit of a wrap-up over some of the comments that we've heard today and trying to bring a little bit of it to a financial perspective and some of the thoughts we have around capital and our medium-term objectives.

On slide 2 you will see that we concentrate on the key messages that we want to leave with you today. And first and foremost, I think that as a management organization as a Company overall we are very focused on driving value creation for shareholders. And there are lots of initiatives across the organization that we have to make choices around, and we do certainly bring a shareholder lens to that exercise.

Secondly, we've set medium-term objectives for ourselves which we view as being ambitious but achievable. And I think setting out for you objectives that we feel good about and are challenging so that you can challenge us as shareholders and as representatives of shareholders you can challenge us on those. But we do aim to meet these objectives, so we put something in front of you that we think is credible.

Third, we are disciplined in the deployment of capital. And that's an exercise that we have been going through. As you know, we had excess capital following the redeployment around the US annuity business a number of years ago and you have seen us deploy that capital, and we want to leave with you the strong message that we are disciplined around that process.

Finally, we want to comment briefly on the LICAT and the capital regime change. That's a big change coming into Canada and the financial space for life insurance and insurers generally. And that comes in in January of next year, so we want to give you some messages around that.

So if we move on to the next slide, I am not going to spend much time on that, that's really just an indication of what we talked to you about a couple of years ago and how we have done against that. You can see that our underlying net income has grown substantially compared to two years ago when we set out the medium-term objectives.

Our underlying return on equity has also grown and our dividend per share has grown. So all in line with what we told you two years ago.

If we could move on to the next slide, it sets out our medium-term objectives supported by our four pillar strategy. Again, I'm not going to spend time on this because really each of the business group leaders spoke to their respective businesses as to how they fit in within this. As you know, there are different stages in the different businesses and different sets of opportunities and challenges, so when we give you our objectives we think about it at the total Company level, and I'm sure you will have some questions around how we see that translating into the total Company level. But suffice it to say that there are initiatives across all of our businesses that dovetail with these objectives.

If we move now to the key drivers supporting the medium-term earnings per share objectives, we have a number of initiatives and levers that support our ability to deliver on our EPS growth objective of 8% to 10%. And importantly, approximately half of the objective is supported by organic growth and existing business initiatives, as we build out our wealth businesses and investments in technology in Canada, for example, growing our international business in the US, executing on leadership and asset management, achieving greater scale in our growing businesses in Asia.



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Now in addition, we have been working hard on margin expansion in a number of our businesses. You have heard from David Healy and Neil Haynes around the plans we have in place in the US group to improve the margins to 6% over the medium-term. Outside of the US we expect margin improvements in Asia as we increase scale in certain markets, and indeed in Canada we see opportunities to improve margins as we deal with expense gaps where we've been growing out some of our business.

And on the acquisition side, as you are very familiar we had made acquisitions in asset management in the US and in Asia. All are delivering in line with our business cases, and we expect them to continue to grow over the medium-term. And these have been laid out for you.

David and Neil described the progress we are making against the Assurant acquisition. And on the asset management side we spent time back in the fall talking about the Ryan Labs, Prime Advisors, Bentall Kennedy acquisitions and how they are performing. And we certainly remain on track and intend to achieve the CAD100 billion of AUM by 2020 that Steve Peacher and the team spoke to you about back in the fall.

And while we are not reliant on additional capital deployment to drive our medium-term earnings per share objective, we do see capital deployment as an additional lever that we will also make use of to help to drive earnings per share growth and ROE expansion. And this deployment can take a number of forms including acquisitions, dividend increases and share repurchases, all of which you have seen us utilize in the past.

Moving next to our balance sheet, we have a high-quality, well diversified investment portfolio, CAD142 billion of general account assets. The bulk of the assets are on the fixed income side. As you know, public bonds, private fixed income, high-quality portfolio, 98% of investment grade.

A key objective in managing the general account is on asset liability management where we manage assets by duration and cash flows to match policyholder obligations. And over the last couple of years you've seen us drive significant value through implementing enhanced yield strategies, for example, which have contributed to investing gains.

As a Company we have a lot of experience with commercial mortgages, real estate. We have added to that with Bentall Kennedy. And while that's focused on the third-party market it also allows us to enhance our skills around our own general account.

Underpinning our investment function is the strong credit risk management function. We have robust credit research capabilities within the function as well as an independent credit monitoring and review function, our second line of defense to ensure that we remain within the credit risk limits that we have set for ourselves.

Moving on then to the interest rate impacts and the sources of earnings, given recent increases in interest rates there have been a lot of questions around how higher interest rates will impact the underlying earnings at Sun Life. While interest rates have indeed increased in recent months, we observe that the absolute level of interest rates continues to remain very low.

Having said that, we are optimistic about our growth prospects. And as I noted a few moments ago, our medium-term objectives are not predicated on significant changes in interest rates in order to achieve that.

I won't go through all of the detail on this slide, but I would point out one area within the sources of earnings where we do expect to see a more immediate impact from interest rates and that is in the area of new business strain. There are a few different ways that rates can impact the overall level of strain. The most obvious is better economics where we benefit from improved pricing and better margins on new sales, but the other potential improvement comes from increased demand for certain products.

For example, in higher interest rate environment there is an increased demand and we expect an increased demand for our liability-driven investment products and Defined Benefit Solutions. We spoke a little bit about that earlier, Kevin Dougherty talked about that this morning. And that would contribute favorably to new business results.

So in the first quarter of 2017, we are going to reflect a methodology change in our sources of earnings to align our methodology for new business strain between our legacy group business in the US and the acquired business of Assurant. The new methodology is an improved means of expressing the earnings on the business and will better align the SOE representation between the North American group businesses between



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Canada and the US. Now this will not impact the overall earnings level, but it will lower the level of new business strain in the US group with an equal and offsetting amount and expected profit.

So as we look at this overall methodology change and the recent improvements in interest rates, we are revising our quarterly estimate for new business strain which we've previously communicated as being in the CAD40 million to CAD50 million range per quarter, and we are revising that to CAD10 million to CAD20 million per quarter. CAD10 million of this improvement comes from the improved economics and the remaining CAD20 million from the methodology change. And I would remind you that the estimate is an average quarterly expectation, and it will, of course, fluctuate quarter to quarter depending on business mix, sales volumes, currency and, of course, changes in interest rates themselves.

Perhaps the most important thing on this particular slide, however, is how interest rates impact capital. Changes in interest rates can have a significant impact on the levels of required capital in the business. And I will be talking about capital in a moment.

The next slide I'm not going to spend too much time on, but I think suffice it to say that again as we think about our M&A that you've seen this exercise we are very focused on ensuring that the opportunities sit firmly within the pillars that have been outlined and that we bring a disciplined approach. And some of the comments around how we exercise that discipline are laid out in that slide.

We now move to the strong capital generation with a balanced approach to deployment. We have a strong capital generation profile. That is the first point I would make.

All of our businesses shown here are contributors to overall capital. And while we would expect to generate net capital of approximately CAD700 million per year, under the current capital framework we would point out that the framework itself is changing effective January 1 of 2018.

As we generate capital and cash we allocate capital to support our financial objectives. We focus first on organic growth in each of our four pillars by investing capital to support new business and initiatives such as the development of our digital strategy. We spent considerable time in each of the pillars talking about some of the investments we are making in the business to be relevant and to be appropriately positioned for client needs and changes in clients' expectations.

We target a return of capital to our shareholders through maintaining our progressive dividend policy of 40% to 50% on our income by way of shareholder dividends. And as shown we have allocated approximately CAD2.5 billion to acquisitions to support growth in the various pillars. And you have heard us talk about those initiatives or those acquisitions.

Then when we have excess capital after having provided for capital to support the business, to pay our dividends, to make acquisitions we have returned excess capital by way of share buybacks.

Moving on to our capital, overall capital position and our flexibility on our balance sheet, so while we have been meeting our goals we have also retained a strong balance sheet, reflecting capital adequacy well above our target levels and additional flexibility to pursue growth alternatives through the maintenance of solid cash levels and flexibility in the leverage ratio. So we did redeem CAD800 million of debt on March 2. And if you look at the numbers here these are pro forma the redemption.

Our MCCR ratios are very strong and reflect both our ongoing capital generation model and a reduction to sensitivity to interest rates and equity market movements for some of the reasons we have talked to you about previously about the activities we have taken to de-risk in certain areas. Our cash at the holding Company is strong and remains above our target level of CAD500 million at the holdco.

Now importantly, our leverage ratio is comfortably below our longer-term target of 25% which allows for additional flexibility to support business needs. Maintaining capital qualifying debt on the balance sheet is an efficient way of meeting our capital requirements. And as you can see on this slide, we have considerable flexibility, notwithstanding the capital we have deployed to date.

And you can see there that in addition to the 25% we also have a level of 30% that we are comfortable to go to on occasion, as long as we see a path back down to the lower level. So we have a lot of room there.





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Now moving on to the new capital regime, LICAT, our regulatory model is changing as you are very well aware. OSFI, as you know, have indicated they do not expect overall industry capital requirements to be much different in aggregate than under the current regime. But certainly there will be impacts by Company, and there will be impacts around certain types of risks and certain types of product.

We believe that we are well-positioned for these changes. Test Run number 1 was filed at the end of January and that was based on 2015 year-end results. And OSFI has asked that we complete Test Run number 2 and file that by the end of January of next year, and that will be using 2016 year-end results.

Over the course of this year we are going to be working on our sensitivities and developing our internal capital targets under LICAT. So a lot of work still to do to operationalize the LICAT framework and to be in a position to communicate more to you our shareholders and the analyst community regarding the impacts of LICAT that we are on track around this initiative at this time.

I would point out, as well, that as we think about LICAT we should think about the difference between cash flows and capital requirements. While LICAT impacts the regulatory capital requirements for the operating Company and for the holding Company, cash flows back to the holding Company from our businesses are primarily based on free surplus generated on a local reporting basis.

So in this respect the change to the Canadian capital requirements primarily impacts the projected flows coming from Canada to the holding Company while the cash from the remaining businesses is largely unchanged. So for our asset management businesses MFS and Sun Life Investment Management, cash flows will not be impacted. And you heard Mike speak about the strong cash flow generation in the asset management business, so obviously no impact there.

If we think about Asia, dividends from subsidiaries are based on the capital requirements and the risk profiles of the local companies. And, again, depending on the stage in the different countries we operate in Asia, the different capital regimes they have, whether they are in the process of changing those regimes, those are the factors that we consider as opposed to the impact of LICAT on those regimes. Because there is no impact.

In the US dividends reflect the risk-based capital requirements in the various legal entities in which we operate. So we operate in the branch, we have captives in the US as well. So those are not impacted by LICAT.

And in the UK, and Dean spoke a little bit about the UK earlier, as you know Solvency II is applicable to our UK business. We implemented that a year ago and Solvency II requirements are the driver there and, again, not impacted by LICAT.

So if I turn now to key messages, I would conclude by reiterating our commitments to our medium-term objectives of 8% to 10%, return on equity of 12% to 14%, dividend payout ratio of 40% to 50%. Again, reiterate, we believe these are achievable given the balanced and diversified business model and supported by the growth in all of the businesses and the strong capital and cash generation that we have. We are well-positioned ahead of LICAT and we remain focused on execution.

So I will pause there. And we will open it up for questions.

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## QUESTIONS AND ANSWERS

**Meny Grauman** - *Cormark Securities - Analyst*

It's Meny Grauman from Cormark Securities. Slide 9 you show a capital deployment, you show the breakdown between 2014 and 2016. As you look forward how would you expect that picture to change, if at all?

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**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

Well, I think really the important point will be that we continue to expect cash capital generation from all of our businesses and very much reflective of the business model that we have. And, of course, we are not alone in having focused on less capital-intensive business strategies. But our businesses if you think about the US business, which is our area of focus on the group side, generates cash capital.

Given the nature of the liabilities we have good position there. We have an in-force business in the United States that runs off over time and frees up cash and capital over time. If we think about asset management, we've talked about that.

So I think the mix here will not change quickly. The Asia piece will, of course, and Kevin mentioned this, will start to contribute more over time. But I think the key focus there, and I think we had a question from Tom, around the cash generation.

So it's one thing to generate capital in Asia, but it's another thing to generate cash. So the cash generation is a reflection of capital regimes in the region and also the maturity of the business. So if you make an acquisition, for example, as we did in India where we bought up our share, that's not going to translate into cash generation coming back quickly because that business is still very much in a growth mode.

In the case of the Philippines, however, where we operate as a wholly-owned subsidiary that regime is going through a capital change. And we believe we are well-positioned in the Philippines to be able to take additional cash. So the distinction between cash and capital is very important, and we are very focused on the cash component in addition to the capital component.

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**Meny Grauman** - *Cormark Securities - Analyst*

And then just as a follow-up, just on the right-hand side in terms of capital deployment and how that would, how you expect that to change going forward in terms of the mix --

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**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

Sorry, maybe I may have answered the wrong question. Apologies.

But on the organic side clearly number one, we always want to focus on organic growth. These are businesses that we are in. We had made an investment to be in those businesses. Dividends a given, this is a business where shareholders expect and should be rewarded with strong dividend growth over time consistent with our objectives.

The acquisitions piece, again if we are focused on the pillars we are in building out, adding to capabilities, a disciplined approach, there is always room for acquisitions. But we have to be disciplined and focused.

And then share repurchases, it's a modest number on this slide, but you have seen us repurchase shares. It's going to be situational, it's going to reflect how we do vis-a-vis the acquisition side, how we do vis-a-vis the organic and have we satisfied all the dividend increased requirements that we'd like to put in place.

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**Sumit Malhotra** - *Scotiabank - Analyst*

Sumit Malhotra, Scotia Capital. I just wanted to go back to slide 7 and some of the interest rate impacts you talked to us about. Just, firstly, on your experience gains, your comment here is our investment strategies have some exposure to gains from higher rates and losses from lower.

I was thinking about your underlying experience here, your investment activity performance has been quite strong for the last year or two. It did, and I could be looking at this too closely, it did seem to move somewhat lower in Q4 as rates were moving higher. So the first part of this is, what exactly has been driving the stronger performance in investment activity and how, if at all, does that change with a higher rate environment?



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**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

Yes, I think, first of all, I would not necessarily link it to the absolute level of interest rates. The investing gains are a reflection of different strategies. So it could be tighter asset liability matching which is, obviously, something that our asset liability management function is very focused on.

It can also be around yield enhancement by virtue of, for example, our private fixed income capabilities, our mortgage capabilities, so we may see opportunities in that stance. It's a very large balance sheet. So with CAD142 billion of general account assets and, obviously, an equal amount of liabilities, we have opportunities to better match, better align and ensure that we have optimized around asset liability management. So that is always an area of opportunity.

I do think that the fourth quarter, the level was a bit on the lower side but not, again, out of line if you look at it with a course of the year. We had a strong year in investment gains, indeed we had a strong year the prior year, as well. So we do see an area of an opportunity to continue to drive gains there, but it is unlikely to be at the elevated levels that we saw in one or two of the quarters last year.

I recall last year we had a particularly strong quarter in, for example, in the United Kingdom. We had strong ALM gains because we had taken some actions with respect to a particular product set where there were some hedge, sorry, some inflation risks in the liability profile, and we bought some index bonds that offset that. And that allowed us to release some additional margins there.

So it is a bit situational. But we think we have strong skills in that regard and the strong skills are in the ALM function itself but also in the investing side. So we have strong skills in the private fixed income area and also on the mortgage side where we are able to pick up some additional yield, and that drives some of those gains.

**Sumit Malhotra** - *Scotiabank - Analyst*

Last one for me is just around the topic of reserves. I think a couple of your competitors lowered their URR assumptions this year and took the charges along with that.

Obviously, rates moving up takes a very long time to impact the assumption here. Are you expecting that you will have to take a charge to lower this assumption in 2017?

**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

Yes, so on that topic, the ultimate reinvestment rate is the rate that Sumit references and the impact of that. We have disclosed that, that if we were to take an action there, a 10 basis point revision to that rate would be approximately CAD75 million. We have disclosed that.

It is possible that that will be required. Although it is interesting if you look back at the time the Actuarial Standards Board, who is the promulgator of the rate setting in that area or the regime there, the rates that we experience today are not that dissimilar to the rates of two years ago. And I think one might argue that this is a very long forward-looking view of rates, so finessing it every couple of years is probably not -- it might give the sense of spurious accuracy.

But in any event, if we were to make that charge it's CAD75 million. We have disclosed that. It's not particularly material to a rate that extends out to something that's in the 30-year-plus category.

Question from Tom at the back.



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**Tom MacKinnon** - *BMO Capital Markets - Analyst*

Yes, on this annual capital generation slide that you have here, what is that over? Is that over some sort of -- is that over a consolidated MCCR ratio?

What is that? Is that over some sort of target surplus or what are these things supposed to be over?

**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

The right way to think of that is around our current MCCR ratio that we would be thinking of in the 200-plus level. So this would be the capital generation. You know, I would love to be able to give you the LICAT view because I think that is much more the relevant view.

Unfortunately, this is, as I say, a view that extends out over the course of this year. But if we -- well, when we next meet I'm sure at an Investor Day we will be spending a lot more time with you on LICAT and how capital generation will be altered under LICAT. But I think the reality for us is that given our risk profile we don't expect it to be any more punitive under a LICAT regime. If anything, it should be more favorable.

**Tom MacKinnon** - *BMO Capital Markets - Analyst*

And we are not going to get anything on seg funds. That is a bigger issue with respect to capital, as well. When are we thinking about getting some rules on seg funds?

**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

I believe 2020 is the date that the regulator is targeting.

**Tom MacKinnon** - *BMO Capital Markets - Analyst*

It's ironic, that was what presumably was driving a lot of the change in the capital. And yet we never really got what we wanted, we are just getting a piece of it now.

**Colm Freyne** - *Sun Life Financial Inc. - EVP & CFO*

I think it's interesting, when you delve into any capital regime it's actually far more complicated than most people anticipate. For obvious reasons capital is essential to the effective functioning of the financial services system. So these changes that are being proposed are complex.

I think they are taking longer to work through and the Test Runs and the analysis by the regulators as they consolidate the numbers is more time-consuming. So we had hoped, when we were thinking about this Investor Day a few months ago we had hoped that we would have a lot more to say to you about LICAT and the impacts today. But, unfortunately, that will have to wait for another event.

Okay, well I don't see any further questions. So I am going to invite Dean back up to the podium to say a few concluding words.



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## PRESENTATION

**Dean Connor** - *Sun Life Financial Inc. - President & CEO*

So thanks, Colm. And I will just wrap up a briefly with the key messages from today. So today we've shared our ambition for the Company to become one of the best insurance and asset management companies in the world.

We have talked about what does that look like, how do we achieve that. And it is centered around the client. And I think you heard in all of the presentations, from David Healy and Neil Haynes and Kevin Dougherty and Mike Roberge and Kevin Strain and Colm Freyne, the word client was used over and over and over again, and that is at the center of the strategy and this is a big change as we look forward.

You have seen some of the investments we have been making in technology that are benefiting clients and are benefiting productivity. You have seen some of the products and solutions and advice that we are rolling out that are going to drive that.

Behind all this, of course, is tremendous cultural change, change around an intensity of effort. I think you've seen that today. There are a lot of pages, dense pages of material that in a way just scratched the surface on the things that we are working on.

As a leadership team there is an intensity to grow, a passion to grow, a passion to serve clients, an incredible alignment around the Company on what we are trying to achieve in these missions and a great focus on execution. So I think that's a key message for you to be taking away today.

All of this around four very strong pillars. And as Colm said at any one point in time some pillar is moving ahead of another and another one drafts the other for a little bit to use a cycling metaphor. But collectively four strong pillars that where we share a high degree of optimism that we are going to drive towards our medium-term growth objectives of 8% to 10% EPS growth and delivering a 12% to 14% ROE and a strong dividend payout ratio.

All of that ultimately driving just fantastic outcomes for our clients and allowing us to deliver on the purpose of our business, achieving, helping our clients achieve lifetime financial security and well-being. So I want to thank you all today, thank you for your presence, thank you for your support, thank you for your questions and participation. And we are going to end here, and the executive team, just the presenters and others, will be available after this to take any other questions or comments that you've got.

So thank you and good morning. Bye-bye.

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