



Sun Life Financial (SLF): Structural Alpha in a Diversified Financial Services Leader

Strategic Positioning, Capital Resilience, and 2025 Investment Analysis

A Strategic Pivot to Capital-Light Growth and High ROE

SLF has transcended its historical identity as a life insurer to become a global leader in asset management and wealth solutions, delivering an industry-leading Underlying ROE of 18.3%.

North Star

**\$1.62
Trillion**

Total Assets Under
Management

18.3%

Underlying ROE
(Target 18%+)

154%

LICAT Ratio
(Reg. Min 90%)

~4.3%

Dividend Yield

The Structural Alpha Thesis

1. Shift to Fees

~**30%** of income now derived from Asset Management (**MFS & SLC**).

2. Asian Growth

Capturing the **rise of the middle class** in emerging markets.

3. Capital Efficiency

Reduced reliance on interest-rate-sensitive guaranteed products.

The 2025 Operating Environment: Navigating Secular Shifts



Interest Rates (The Yield Lift)

Context: Higher-for-longer environment.

Impact: Reinvesting maturing bonds at 4-5% yields (vs. 2-3% historically) boosts net investment income, though higher discount rates pressure real estate valuations.



Asset Management (The Great Rotation)

Context: Capital migrating from active public equities to passive ETFs and private markets.

Impact: Validates SLC Management's alternative focus; challenges MFS's traditional active mutual funds.



Demographics (The Divergence)

Context: "Silver Tsunami" in the West vs. Wealth Accumulation in Asia.

Impact: Demand for longevity/health products in Canada/US; double-digit protection sales growth in India/Philippines.

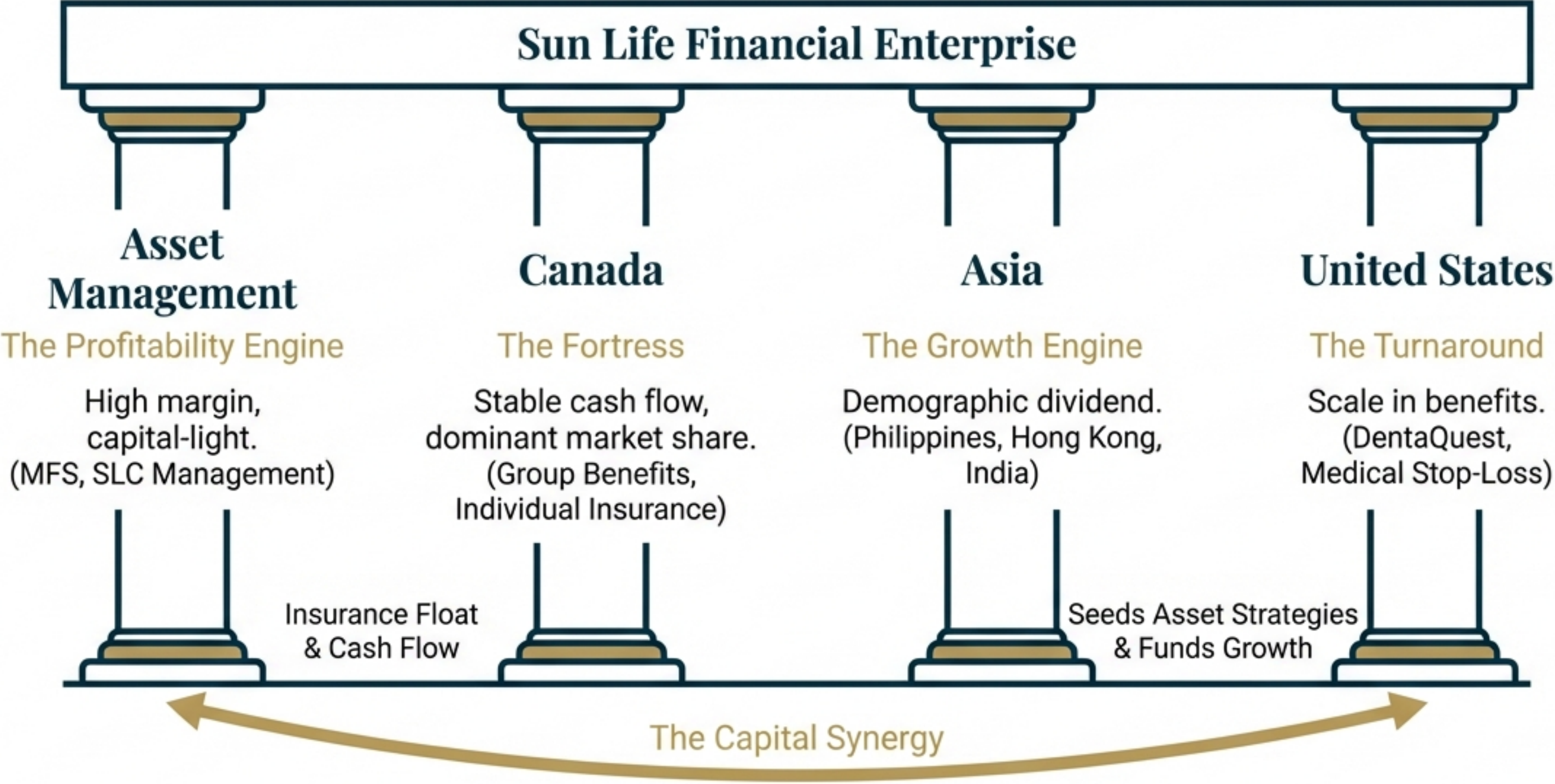


Regulation (The Transparency Era)

Context: IFRS 17 implementation.

Impact: Introduces income volatility but clarifies economic value via Contractual Service Margin (CSM).

Four Distinct Pillars Working in Concert to Reduce Volatility



Asset Management I: MFS Retains Profitability Despite Headwinds

The Challenge: Retail Outflows



Driven by industry-wide shift to passive strategies and risk-free rate products.

The Resilience: Institutional Strength



US\$12.9B in institutional gross sales. Wins in SMAs and CITs prove sophisticated allocators still value active stock-picking.

Strategic Defense: Launch of Active ETFs to capture flows migrating from mutual funds.

Asset Management II: SLC Management and the Alternative Future

Purpose-built to capture the “Great Rotation” into private credit and real estate.

\$199 Billion

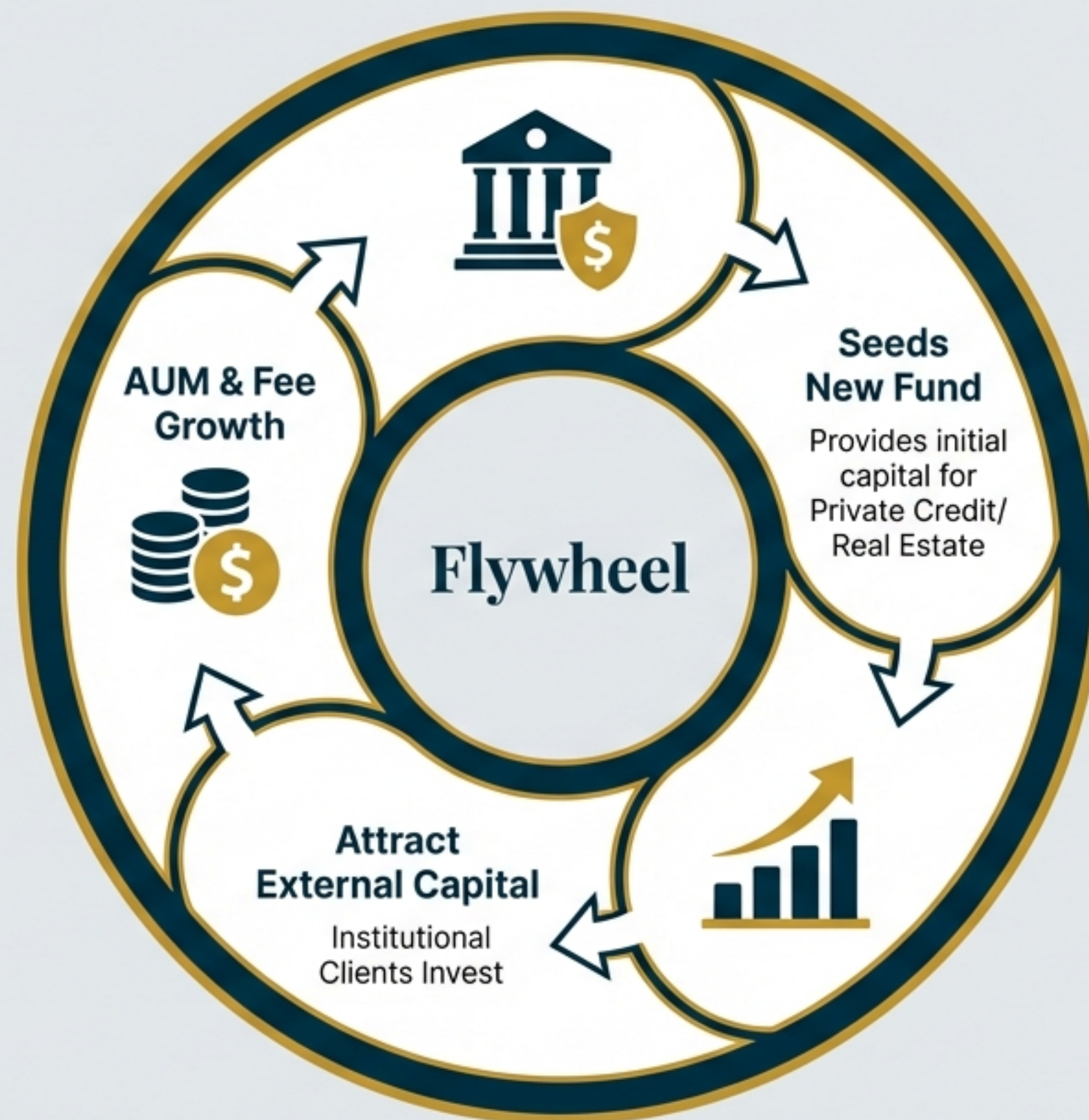
AUM (+9% YoY)

\$5.6 Billion

Capital Raised (Q3 2025)

26%

Fee-Related
Earnings Margin

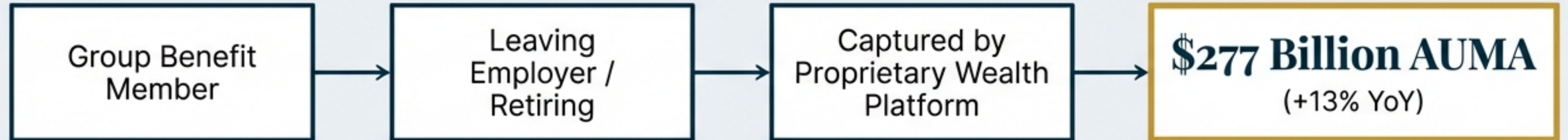


Canada: A Market-Leading Fortress Generating Stable Cash Flow

Market Dominance



The “Rollover” Capture Strategy

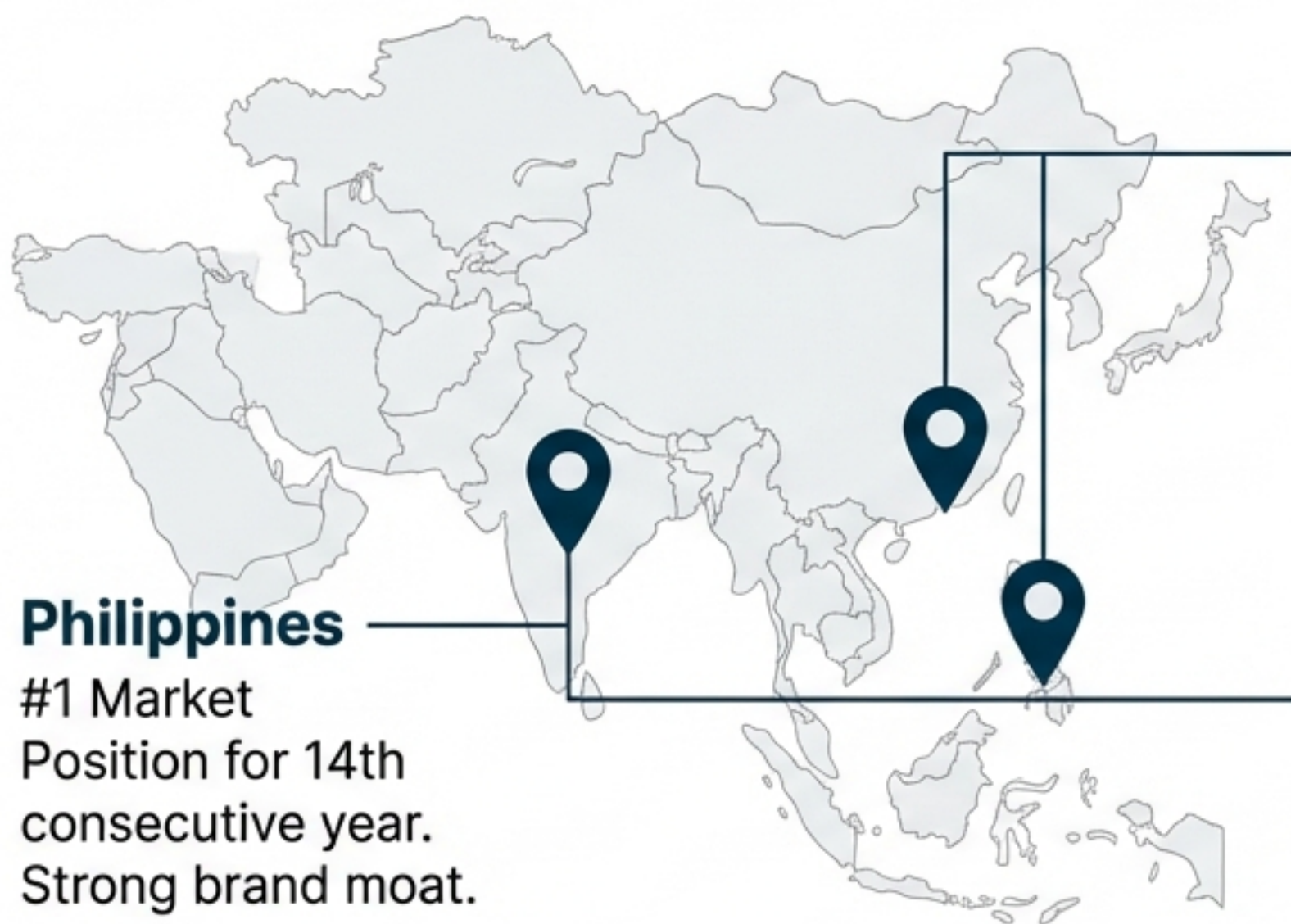


Credit Resilience

Improved credit experience contributed to a 13% increase in net income (\$422M), proving underwriting discipline despite slowing economy.

Asia: The High-Growth Engine Delivering 33% Earnings Expansion

Q3 2025 Underlying Net Income: \$226M **(+33%)**



Hong Kong

Sales **+39%**. Driven by High-Net-Worth & Broker demand.

Philippines

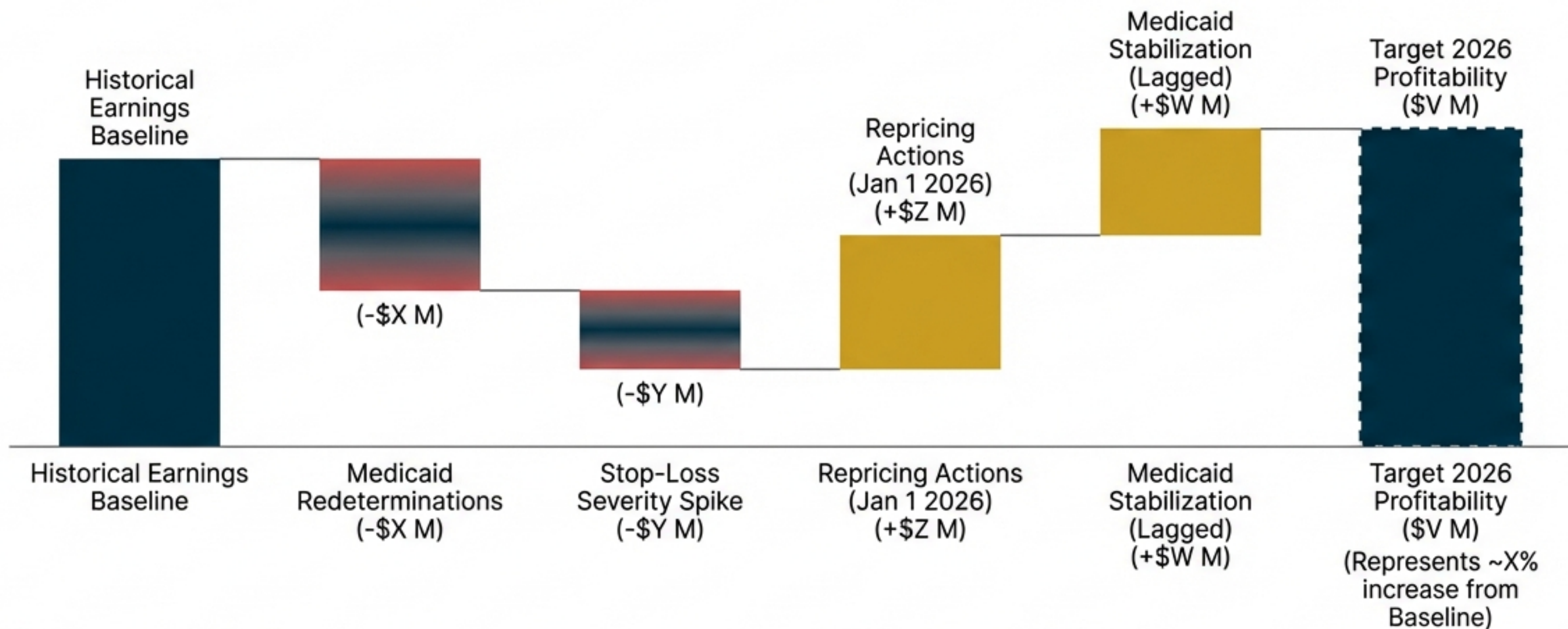
#1 Market
Position for 14th consecutive year.
Strong brand moat.

India (JV)

\$65B+ AUM.
Double-digit protection sales growth.

Demographic Dividend:
Capitalizing on the rise of the middle class and low insurance penetration rates in emerging economies.

United States: Repricing Actions to Resolve Near-Term Headwinds



The Current Friction:

US Group Health & Protection earnings declined 34% in Q3 2025 due to transient morbidity headwinds.

Management View:

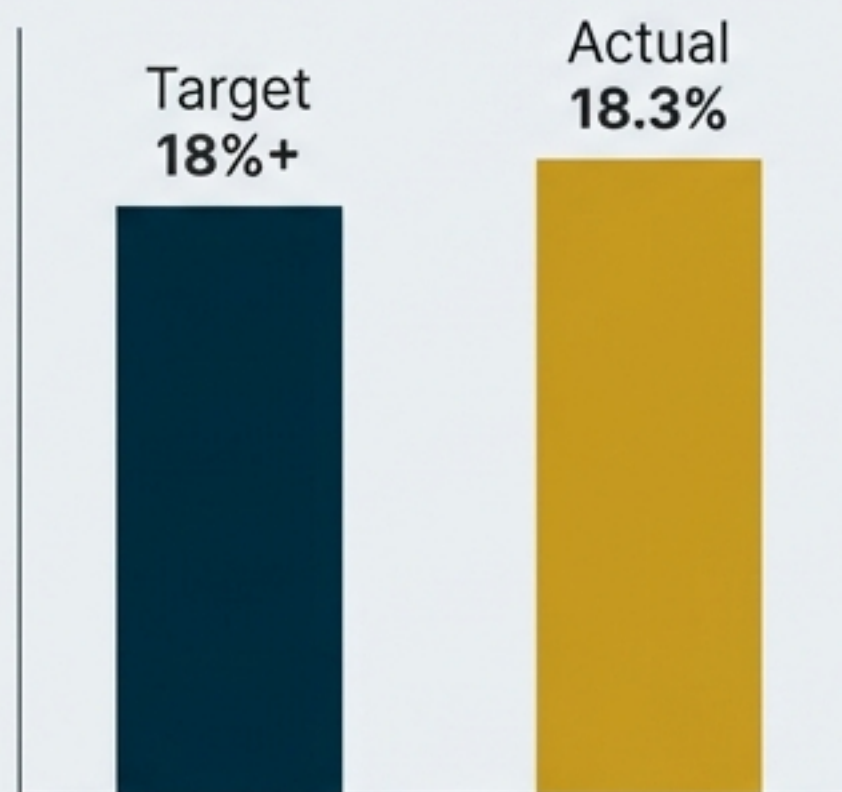
Medicaid contracts are repricable. Headwinds are cyclical, not structural.

High-Quality Earnings Supported by Strong Capital Generation

Underlying EPS Trend

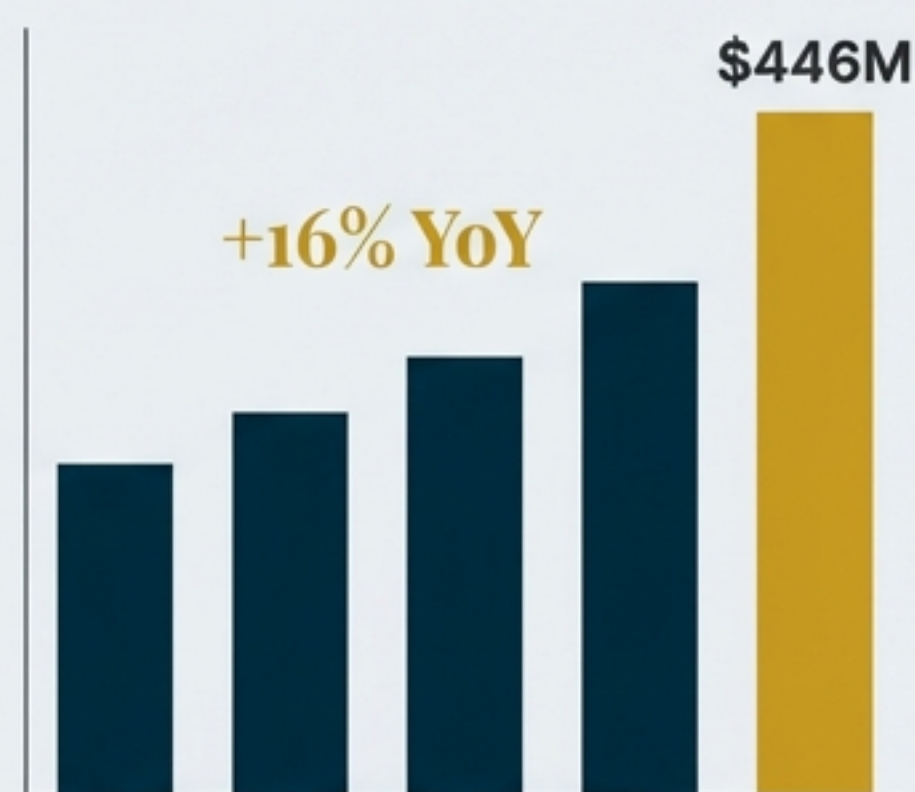


Underlying ROE Efficiency



Driven by mix shift to capital-light businesses.

New Business CSM Growth



Unearned future profit store.

A Fortress Balance Sheet with Prudent Asset Liability Management

Capital Strength

154% LICAT Ratio

Q3 2025. Well above 90% regulatory minimum.

Investment Portfolio Defense

Fixed Income Quality

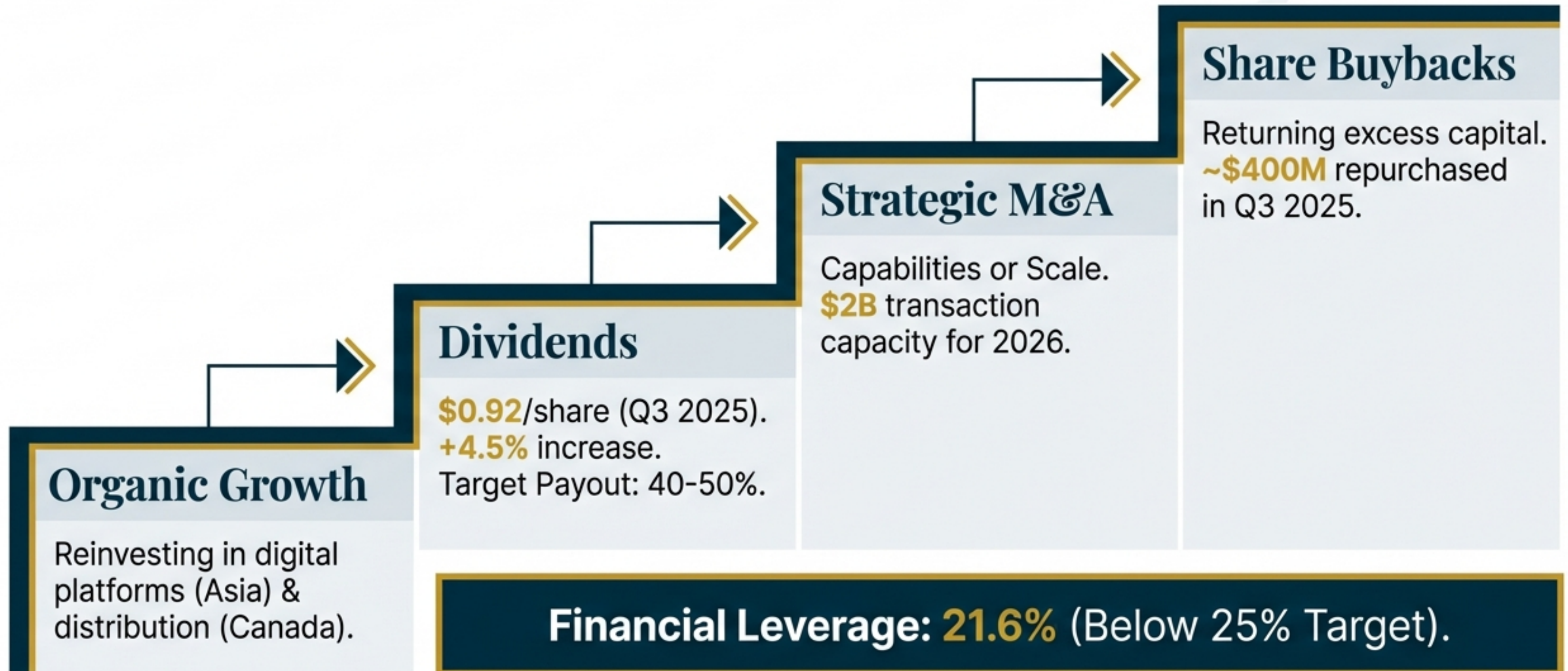


Office Real Estate Reality Check

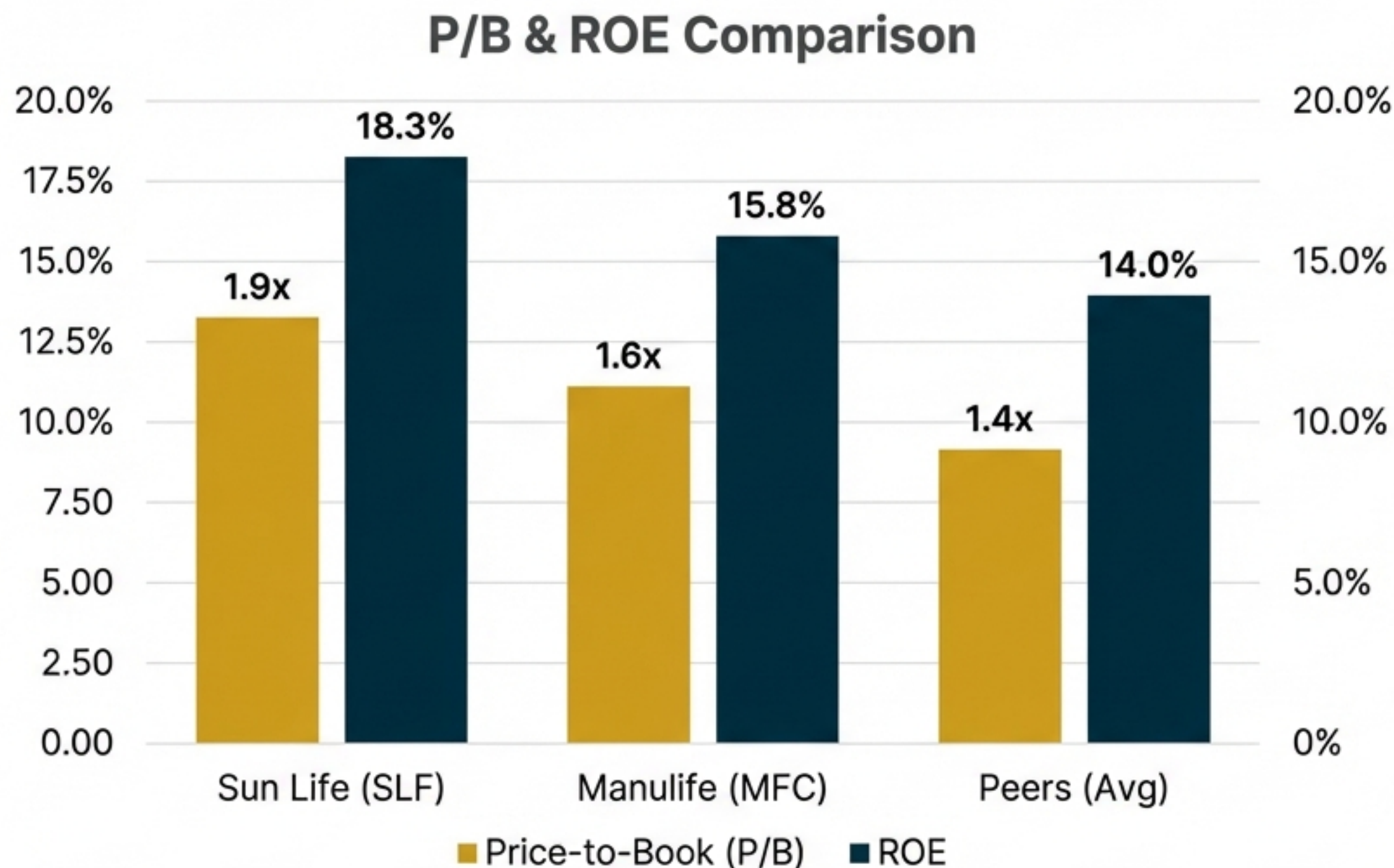
Office Mortgage Exposure: \$2.45B (17% of mortgages).
Uninsured Office LTV: 54%.
Debt Service Coverage Ratio: 1.76x.

Conclusion: Values would need to collapse by nearly half before principal losses occur.

Disciplined Capital Allocation to Maximize Shareholder Value



Valuation: Premium Multiples Justified by Structural Alpha



Insight:

Market awards a higher multiple to SLF due to Asset Management/Asia mix.

Current U.S. headwinds have narrowed the P/E gap, creating an entry point.

Risk Factors: Monitoring Execution and Macro Volatility



Final Verdict: A Durable Compounder with Temporary Headwinds

Structural Elegance

Investment Checklist

- ✓ **Structural Alpha:** 18.3% ROE exceeds cost of capital.
- ✓ **Fortress Balance Sheet:** 154% LICAT & Low Leverage.
- ✓ **Growth Engines:** Asia (+33%) and Alternatives (SLC).
- ✓ **Income:** ~4.3% Yield with dividend growth.

Call to Action: Accumulate. Short-term US volatility creates an opportunity to own a high-quality franchise. **Catalyst to watch:** US Dental margin recovery in 2026.