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Great-West Lifeco, Inc.
First Quarter 2025 Results
Conference Call Transcript

May 8, 2025

DISCLAIMER

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

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The reader is cautioned that the foregoing list of assumptions and factors is not exhaustive, and there may be other factors listed in the Company's filings with securities regulators, including factors set out in the "Risk Management" and "Summary of Critical Accounting Estimates" sections of the Company's 2024 Annual MD&A and in the Company's annual information form dated February 5, 2025 under "Risk Factors", which, along with other filings, is available for review at www.sedarplus.com. The reader is also cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information.

See also "Important Note Regarding Sustainability Disclosure" in the Company's 2024 Annual MD&A.

Other than as specifically required by applicable law, the Company does not intend to update any forward-looking information whether as a result of new information, future events or otherwise.

Corporate Participants

Shubha Khan
Senior Vice President and Head of Investor Relations

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President and Chief Executive Officer

David Harney
President and Chief Operating Officer, Europe and Capital and Risk Solutions

Jon Nielsen
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Edmund Murphy
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Fabrice Morin
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Conference Call Participants

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Scotiabank– Analyst

Gabriel Dechaine
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Doug Young
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Tom MacKinnon
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Paul Holden
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Operator:
Welcome to the Great-West Lifeco First Quarter 2025 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity for analysts to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would now like to turn the conference over to Mr. Shubha Khan, Senior Vice President and Head of Investor Relations at Great-West Lifeco. Please go ahead.

Shubha Khan:
Thank you, Operator.

Hello, everyone, and thank you for joining the call to discuss our first quarter financial results.

Before we start, please note that a link to our live webcast and materials for this call have been posted on our website at greatwestlifeco.com under the Investor Relations tab.

Turning to Slide 2. I'd like to draw your attention to the cautionary language regarding the use of forward-looking statements, which form part of today's remarks, and please refer to the Appendix for a note on the use of non-IFRS financial measures and important notes on adjustment terms and definitions used in this presentation.

Turning to Slide 3, I'd like to introduce today's call participants. Joining us on the call today are Paul Mahon, our President and CEO; Jon Nielsen, our Group CFO; David Harney, President and COO, Europe and Capital and Risk Solutions; Fabrice Morin, President and COO, Canada; Ed Murphy, President and CEO, Empower; Linda Kerrigan, Senior Vice President and Appointed Actuary; and Jeff Poulin, Executive Vice President, Reinsurance.

We will begin with the prepared remarks, followed by Q&A, and with that, I'll turn the call over to Paul.

Paul A. Mahon:

Thanks, Shubha.

Please turn to Slide 4.

Before turning to our results, I wanted to take a moment to acknowledge last week's announcement regarding my retirement. This transition comes at a time of strength for both our business and our team. We've sharpened our focus, with each of our operating segments executing clear strategies to drive growth. This has fuelled record performance and continues to create lasting value for our shareholders. It also speaks to the strength of our talent and our deliberate succession planning and leadership development. Over time, we've built a deep and capable leadership bench, drawing on talented leaders from across Lifeco and our operating companies who share a deep commitment to our success.

I'm very pleased the Board has appointed David Harney as our next President and CEO. He is an outstanding leader with more than 35 years of experience across our organizations, beginning at Irish Life. He's held a wide range of roles, most recently as President and Chief Operating Officer for Europe and for Capital and Risk Solutions. He has also been leading our global investment organization as Interim Global Chief Investment Officer over the past few months. His business-building mindset, strategic vision, and strong track record of execution make him ideally suited to lead Lifeco going forward. David, congratulations on your appointment, and I look forward to working closely with you to ensure a smooth transition.

Please turn to Slide 5, and moving on to our results.

Our strategy is playing out as expected, and this quarter demonstrates the progress we're making. Apart from the impacts of market volatility and seasonally-impacted insurance experience, our businesses delivered strong underlying performance this quarter. Our Wealth businesses are driving both strong top line and bottom line growth. Our Group Retirement and Benefits businesses continue to see strong organic growth, benefiting from scale and differentiation, and our Insurance and Risk businesses continue to provide solid diversification and growth opportunities. Jon will dive deeper into the key drivers behind these results in his section of the presentation.

I'm pleased to report that, once again, we exceeded $1 billion in base earnings this quarter, marking a 5% increase year-over-year. Base EPS rose 6% to $1.11 and base ROE reached 17.2%, up 20 basis points over the prior year. We continue to earn the trust of millions of customers and advisors. Today, our reach spans more than $3 trillion of total client assets, an increase of 13% over the prior year. Of that, $1 trillion represents assets in advised solutions or under management, further underscoring the strength and scale of our Retirement and Wealth platforms.

Our financial position remains strong, backed by a solid balance sheet, a healthy LICAT ratio, and a comfortable leverage ratio. As we shared at our recent Investor Day, one of the key strengths of our business is cash and capital generation. Lifeco's cash position has grown to $2.5 billion and is supported by a solid capital base. This gives us the flexibility to deploy capital confidently and in line with our strategic priorities.

Please turn to Slide 6.

We've introduced a new way of looking at performance that cuts across our four core businesses: Retirement, Wealth, Group Benefits, and Insurance and Risk Solutions. This view brings together results from across geographies, offering a clearer picture of how each of these four businesses contributes to our results. You'll see this reflected on the next two pages, and Jon will provide additional insights at a country level. Retirement and Wealth remains strong growth engines, both delivering double-digit increases in base earnings this quarter.

In Retirement, our scale and leadership are driving profitable growth, with base earnings up 24% year-over-year. This is supported by margin expansion, notably at Empower, where operating margins rose nearly 400 basis points to roughly 30%. Net flows at Empower also improved, indicating continued momentum in this business. Recognizing the connection between health-related benefits and retirement solutions, Empower introduced the new customer-directed healthcare savings offering to help individuals better manage their healthcare finances. This strategic move enhances Empower's value proposition and supports long-term growth by creating financial wellness solutions that meet the evolving needs of their customers.

In Wealth, we continue to unlock value through strategic extensions and are seeing strong flows across our platforms. In Canada, our Independent Wealth platform is gaining momentum, marked by a major milestone with the launch of Advice Canada, a leading joint wealth and insurance destination for entrepreneurial advisors. I'm pleased to report our Wealth business in Canada delivered an improvement in net inflows of over $300 million year-over-year.

At Empower, we're building on our leadership in retirement as we continue to advance Empower personal wealth, with a focus on the underserved mass affluent market segments. This is also driving strong net flows and asset growth. In Europe, we've remained focused on scaling our Unio Wealth business in Ireland to capture organic growth. Strong market conditions contributed to higher fee income and earnings this quarter.

Please turn to Slide 7.

Group Benefits and Insurance and Risk Solutions delivered solid performance and continue to be key contributors to Lifeco's growth and diversification. Group Benefits' base earnings rose by 4% year-over-year. In Europe, we saw strong premium growth driven by both in-force business and new sales in Ireland. Canada had strong long-term disability results this quarter and is continuing to improve service for workplace customers. This includes the rollout of the Canada Life Commitment, a service guarantee for Group Benefits and Retirement plan sponsors.

Insurance and Risk Solutions delivered solid results considering the impact of mortality experience. Our disciplined approach to underwriting and pricing continues to support our long-term success in these businesses.

In Capital and Risk Solutions, we established a claims revision related to the impacts of the tragic wildfires in California this January. Our thoughts remain with those affected and we're continuing to support impacted clients during this difficult time. Annuity sales moderated this quarter, reflecting the typical seasonality in these businesses. We remain confident in the long-term outlook, as demand for secure retirement income solutions continues to grow, particularly in the U.K. pension risk transfer market where companies are increasingly looking for ways to manage their pension risk.

Please turn to Slide 8.

Despite ongoing macroeconomic uncertainty, we remain well-positioned for the future, supported by resilient businesses and a strong financial foundation. Our well-diversified portfolio includes businesses operating in mature domestic markets, delivering essential financial services like retirement savings and financial advice. Our Retirement and Wealth platforms continue to demonstrate both resilience and growth. In the U.S., for example, a significant portion of Empower's earnings are driven by factors other than equity markets, underscoring the strength and diversification of our business model. Empower continues to expand its offerings and diversify revenue streams by launching new products designed to meet a wider range of customer needs, supporting growth in any market environment.

Our strong financial position is the result of years of disciplined risk management and a prudent investment approach. Today, 93% of our non-participating portfolio is in fixed income and 99% is investment-grade. This same discipline guides our capital allocation, enabling us to preserve financial flexibility, manage risk, and drive long-term value for our stakeholders and shareholders.

Now, before Jon takes us through the details of the quarter's financial performance, I'd like to invite David Harney to share a few words as he joins us as our new CEO in July.

David Harney:
Good morning, everyone, and thank you, Paul.

I'd like to start by recognizing Paul for the incredible leadership and care he has shown in guiding Lifeco over the past 12 years. All leaders have the challenges of their time, and for Paul, he responded to the Global Financial Crisis by strengthening our discipline and capabilities. He provided steady, reassuring leadership through the uncertainty of the pandemic, and he guided us through new LICAT regime and the implementation of IFRS 17. Paul's legacy will be the portfolio of businesses he has built for Great West Lifeco. Under his leadership, we have built a leading global reinsurance business and a strong growing European business. We have consolidated our businesses in Canada under Canada Life, creating one of the best financial brands in our home markets and built Empower through acquisition and investment, creating one of the best retirement and wealth businesses in the U.S., and these results speak for themselves. We have achieved an impressive track record of performance and delivered lasting value to our shareholders. Paul, on behalf of the team, I want to thank you for your contributions. We wish you and your family well and a future of success and happiness.

Looking ahead, the team and I are very excited about the opportunity to further build on this success. We are very proud of the important role we play in the lives of our customers and that's what energizes us as an organization. We have clear strategies and the financial strength to grow. These are grounded in the strategic playbook we shared at Investor Day and are supported by strong secular trends, which gives us confidence in our outlook and confidence in our ability to meet our enhanced financial objectives. I look forward to relocating to Toronto from first of July, and to analysts and investors on the call, I look forward to connecting with you in the months ahead.

With that, I'll hand over to Jon who will take you through this quarter's results in more detail.

Jon Nielsen:
Thanks, David. I look forward to working with you in your new role.

Now, please turn to Slide 11.

We delivered strong underlying performance in the first quarter, with base earnings increasing on the back of double-digit growth in our Wealth and Retirement businesses.

Empower had an excellent start to 2025. Base ROE exceeded 17% and is set to move higher over time as a result of our higher growth in the capital efficient businesses. I'm particularly pleased that we're able to deliver solid earnings growth despite some discrete items in the quarter. This includes unfavourable mortality experience across our business totalling approximately $30 million before tax. This was impacted by seasonal impacts, as well as heightened claims volatility.

Our results were also impacted by a claims provision of $21 million after tax related to the California wildfires that we previously highlighted. There were also write-downs of three U.S. commercial mortgage loans in our investment portfolio totalling $45 million after tax, most of which was related to a single property. I would add that these write-downs are asset-specific and do not reflect a change in the economic environment.

While those items were unusual, our first quarter results also reflect a degree of seasonality. As you're aware, 2024 was a leap year, and this impacted our reporting earnings growth, both quarterly as well as annually. This quarter had one less day than compared to a year ago and two less days compared with the fourth quarter of 2024. Compared to the first quarter of 2024, this reduced year-over-year growth in base earnings by $0.01 to $0.02 per share.

Further, in the first quarter of each year, we typically launch marketing campaigns in our Wealth businesses, resulting in higher spend, and we see the spend moderate over the remainder of the year. Going forward, we plan to address seasonality between quarters in ongoing earnings calls.

Now, as it was expected, earnings on surplus moved lower in the first quarter, principally due to the falling short-term interest rates in Canada. That said, I'm quite comfortable characterizing our first quarter results as strong since the majority of the items that I mentioned are unlikely to persist.

Turning to Slide 12.

As I mentioned on the previous slide, insurance experience gains and base earnings moderated from the prior year due to unfavourable mortality experience in the quarter. However, there were experience gains related to longevity in the quarter, reflecting the diversification of risk in our business. Under IFRS 17, these gains were recorded as realized within CSM rather than base earnings. While we had an economic hedge and saw unusual experience in both mortality and longevity, the accounting treatment under IFRS 17 did not provide an immediate offset. Despite the volatility we experienced in the quarter, insurance experience was favourable in aggregate.

Now turning to Slide 13.

In the U.S., Empower got off to a great start to 2025 and contributed double-digit base earnings growth. This reflected strong business growth and higher markets, as well as the synergies related to the integration of the Prudential business. Base earnings growth in the quarter was partially offset by the mortgage write-downs I mentioned earlier.

Empower had a great quarter from a flows perspective. Net inflows of $5.2 billion in our Retirement business were driven by new plan wins and strong plan retention, while Wealth net flows more than doubled year-over-year to $2.8 billion driven by continued strength in our rollover sales. Our outlook for 2025 based upon our committed sales and pipeline will result in net plan growth and market share gain. However, net plan growth will be volatile quarter-to-quarter.

Turning to Slide 14.

In light of the recent market volatility, I wanted to remind everyone about Empower's revenue diversification and the resulting earnings stability. Approximately one quarter of Empower's net fee and spread income is participant fee driven and not tied to markets. A further one quarter is derived from higher margin capital preservation products, the demand for which tends to increase during periods of market volatility, resulting in only approximately 50% of our revenue tied to AUM driven fees. Our AUM driven fees also provide diversification across asset types.

Turning to Slide 15.

In Canada, base earnings were down 7% year-over-year due to last year's assumption changes, lower experience gains from exceptionally high levels a year ago, as well as lower earnings on surplus. This offset the benefit of higher markets on retirement and wealth assets in the quarter.

Turning to Slide 16.

In Europe, base earnings increased 6% year-over-year, with strong results across all lines of business. Excluding the impact of lower earnings on surplus, which declined mainly due to higher remittances, earnings would have grown at a double-digit pace.

Turning to Slide 17.

Within Capital and Risk Solutions, base earnings were down 4%, up 4% year-over-year, but down 2% in constant currency. The results this quarter were impacted by the provision for California wildfires, as well as unfavourable mortality experience and the positive impact of a provision release. However, the underlying growth remains strong, driven by new business volumes in Capital Solutions.

Turning to Slide 18.

As Paul noted in his remarks, market volatility has been elevated since March amid concerns of a deterioration in the global economic outlook. This will inevitably raise concerns about our earnings outlook, especially across our Retirement and Wealth businesses. Despite the negative headlines, both fixed income and equity markets remain above levels seen a year ago, especially in Canadian dollar terms. Overall, the second quarter financial markets continue to be favourable against the same quarter of 2024.

Turning to Slide 19.

We have significant resilience to market volatility, thanks, in part, to our diversified business. In addition to be well positioned to absorb impacts on items excluded from base earnings, we have provided additional detail on the impact of sustained interest rate and equity market shocks to base earnings. We estimate that a sustained 10% decrease in equity markets would have a manageable impact on base earnings of $200 million over the course of an entire year.

Turning to Slide 20.

Strong capital generation gives us additional confidence in our ability to absorb elevated economic uncertainty and market volatility. Our base capital generation exceeded 80% of base earnings during the quarter. On a trailing 12-month basis, remittances have averaged over $900 million. Our remittances are seasonal to an extent, and we anticipate second quarter to be lower than what we delivered in the first quarter as we plan for the upcoming maturity of the bond in the third quarter.

Now, turning to Slide 21.

We continue to maintain a strong balance sheet to ensure that we are resilient through market cycles and can deploy capital as opportunities emerge. Despite the recent market volatility, the capital priorities I shared at our recent Investor Day have not changed. In the quarter, our LICAT ratio was steady at 130%, flat from the prior quarter. This follows our decision late last year to increase dividends to Lifeco, while maintaining capital levels well above regulatory minimums within our operating companies. Our leverage ratio declined one point from the fourth quarter to 28% and remains on a downward trajectory given our strong earnings growth. Our cash balance of $2.5 billion reflects continued up-streaming of capital to Lifeco and adds further to our resiliency and optionality.

With that, I'll turn it back over to Paul for his concluding remarks.

Paul A. Mahon:
Thanks, Jon.

Please turn to Slide 22.

Our core strategies are delivering strong momentum, reinforcing our confidence in achieving our medium-term objectives. Our Wealth and Retirement businesses remain key drivers of base earnings growth, focused on markets where advisor and customer demand remains high. At the same time, our disciplined approach to capital deployment and deliberate portfolio choices are generating strong returns for shareholders. Solid cash and capital generation continue to provide the financial flexibility to thrive across all market conditions, invest in our businesses, and pursue growth opportunities with confidence.

Looking ahead, we remain focused on executing our strategy, creating value for our customers, and sustaining the momentum we've built for our shareholders. With continued momentum, well-diversified earnings across our operating segments, and strong cash generation, we're well-positioned to drive continued growth.

On a personal note, this marks over 70 analyst calls I've participated in with Great West Lifeco. As I reflect on my 12 years as CEO, I'm incredibly proud of the progress we've made together. Most of all, I'm proud of the exceptional team behind the success, and I'm deeply grateful for their dedication and support. To analysts on the line, thank you. Your thoughtful questions and engagement have challenged us and helped us to constantly improve our strategy. I've valued your insights, curiosity, and partnership over the past decade. I look forward to watching Lifeco continue to grow under David's leadership as the Company builds on its success and delivers on its strategies going forward.

Thank you all, and with that, I'll turn it over to Shubha to start the Q&A portion of the call. Shubha?

Shubha Khan:
Thank you, Paul.

In order to give everyone a chance to participate in the Q&A, we would ask that you limit yourselves to two questions per person. You can certainly re-queue for follow-ups, and we will do our best to accommodate if there's time at the end.

Operator, we are ready to take questions.

Operator:
Certainly. To join the question queue, you may press star, then one on your telephone keypad. You'll hear a tone acknowledging your request. If you're using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, press star, then two.

Our first question is from Meny Grauman with ~~Deutsche Bank~~ "Scotiabank". Please go ahead.

Meny Grauman:
I've switched banks, I guess, but good morning.

Paul A. Mahon:
Meny, I was going to congratulate you, I guess.

Meny Grauman:
It's news to me, but just a question on something you were talking about. You highlighted the temporary factors impacting the results this quarter, and one factor that you highlighted was unfavourable mortality experience. Just wanted to better understand why you believe that is a temporary factor, and then I have a follow-up.

Paul A. Mahon:
Thanks, Meny. I'm going to turn that one over to Jon and then I suspect he'll call on a couple of his colleagues.

Jon Nielsen:
Yes, so Meny, what we saw across the portfolio, and this was across all of our segments, also across both our Group and Individual business and our Annuity business, was heightened mortality and impacts from that. Part of it is seasonal. Over the last couple of years, we've started to see a seasonal

impact in the first quarter. The rest we would attribute just to heightened volatility. Now, let me give you a little perspective across the longer period of time in terms of mortality. In terms of the last 10 years, if you take out COVID, we've had six quarters of impacts larger than $30 million, half of them positive, half of them negative. This happened to be a negative quarter, so we see this from time to time. Over that period, the aggregate impact on mortality has been a slight negative, roughly equivalent to what we saw this quarter. We've seen volatility quarter-to-quarter and over time, but it's over the period of time, it's been positive and negative, so that's what—we just attribute most of it to that volatility.

I'd also say, I'd point out that we saw the same thing in our longevity portfolios, and as we articulated before in a quarter of heightened mortality, we saw obviously increased longevity, and unfortunately, there's an accounting mismatch in how you deal with this experience. Overall, if you add CSM impacts and P&L, it was a positive for us, but just due to the accounting treatment, we got the volatility in earnings from mortality, and obviously, we saw an increase in CSM that we'll recognize over a period of time. We don't see anything in the underlying trends that would give us a cause, a concern that it's an assumption-related issue. We attribute it just specific to the quarter.

Meny Grauman:
Understood, and similar question just on the mortgage impairment. What gives you confidence that this is idiosyncratic and not a sign of something that might be more persistent in your book?

Paul A. Mahon:
Thanks, Meny. David Harney's going to take that one. David?

David Harney:
Yes, so I suppose maybe when we look at the invested assets in our non par general accounts, so just maybe overall, that's a very well-diversified portfolio. It's of very high quality. It goes a long way to the strength of our balance sheet, and we've been very satisfied with the performance of those assets. The one area of weakness, and it is the one area of weakness we've seen in the last while, is just within the mortgage portfolio. Particularly within the mortgage portfolio, then within commercial office, and then if you further go into that, it's just in the U.S. Just with some of the properties in the U.S. where we have maybe a large anchor tenant that is leaving and a small number of those properties, we've seen situations, for one reason or another, the sponsor is unwilling to reinvest to get tenants back into the property.

We've given more information on the overall portfolio just in the slides on 29 and on 34, so if you look at the U.S. portfolio, the office portfolio was $2.5 billion in total, so less than 2% of the overall account. That's spread over 70 properties. We know all of these properties individually. What we've seen in this quarter is that type of event with one of the larger properties. It would be a little strong to say maybe we're completely at the end of that trend within the U.S., but we're pretty confident we're very close to the end of it, and we've no sort of remaining mortgage that would be as large as one of the hits we've taken this quarter. We're pretty optimistic on the outlook for the sector.

Meny Grauman:
Got it, and finally, just all the best in your retirement, Paul, and congrats, David.

David Harney:
Thank you.

Paul A. Mahon:
Thanks, Meny.

Operator:
The next question is from Gabriel Dechaine with National Bank Financial. Please go ahead.

Gabriel Dechaine:
Hi. Good morning. Just wanted to talk about the sales in the retirement business and how those migrate over into the Wealth business. First of all, the trend in plan redemptions improved consistently over the past few quarters and you're back into net inflows. That's good. Then I saw a note about the 30% increase in rollover sales. Just for clarification, those are redemptions and whatever the total number is of redemptions, you've captured some in the rollover and that number is 30% higher than last year, right?

Paul A. Mahon:
I'll turn that one over to Ed.

Edmund Murphy:
Yes, that's correct. It's 30% higher, yes.

Edmund Murphy:
Those are people who are changing jobs or retiring. Yes.

Gabriel Dechaine:
Okay, and then I just think of that money as showing up in the new or gross sales of the Wealth business, correct?

Edmund Murphy:
Yes. That's correct. Right.

Gabriel Dechaine:
Is there a dollar amount you can share, because, I mean, 30% sounds good, but it's still pretty low relative to your ultimate objectives, correct, the volume of it?

Edmund Murphy:
The gross number was $6.6 billion in gross sales, with the majority of that being rollover. That's the best quarter we've had in the history of the business.

Gabriel Dechaine:
Okay.

Edmund Murphy:
In terms of our effectiveness and our efficacy, we're also at the highest level in terms of our ability to successfully capture the money that's in motion. I think that's a work in progress. We expect to see further improvement there. I will say it's a strong statement about our value proposition, our ability to compete in a very competitive market in the U.S., that mass affluent market. We're pretty pleased about our results.

The other thing I would just note that was I think a significant contributing factor to our net new assets is the improvement that we've made in asset retention. We moved from 86% to close to 90% year-over-year, which again, reflects, I think, the value proposition and some of the steps that we took to shore up and strengthen our service offering.

Gabriel Dechaine:

Okay.

Paul A. Mahon:

Gabe, I was just going to underline that when you think back to the Investor Day where Ed talked about the drivers of growth into the future, the plan is playing out as we expected, and, as a matter of fact, I think this is a really strong quarter where we've made strong—getting strong positive momentum. That 30% increase year-over-year in rollover capture is a strong performance. We'd like to keep that going.

Gabriel Dechaine:

Then, sorry, the $6.6 billion number, what is that again? That's total rollover assets retained?

Edmund Murphy:

That's our gross sales in the segment, so gross sales in the segment, so for the quarter, $6.6 billion.

Gabriel Dechaine:

Of rollover sales?

Edmund Murphy:

Most of its rollover, but we have other—we have a direct to consumer channel, so we have what I would call an unaffiliated customer that will open up an account with us. They see our advertising, they see some of our performance marketing, so that's another channel of distribution for us.

Jon Nielsen:

Maybe Doug, just to address the, you called out the net plan sales, we're really happy.

Gabriel Dechaine:

Yes.

Jon Nielsen:

Gabe, sorry. Gabe, we're really happy with...

Gabriel Dechaine:
At least I don't work at Deutsche Bank.

Jon Nielsen:
We have the wrong bank and the wrong analyst. We did have net plan sales. As you recall last year, we called out a large loss, single client loss. We're really happy to get back to net plan sales. As I shared in my opening remarks, based upon committed sales and pipeline, Ed will deliver net plan sales for the full year as expected and back to that trend of taking market share, but I would say quarter-to-quarter, there'll be volatility, because sometimes we lose a large client, sometimes we gain a large client. This quarter, obviously, you called out that it was a net positive, but I'll just call out for the year, we expect net positive, but expect some quarter-to-quarter sales or losses of clients.

Paul A. Mahon:
Yes, I would just double-click on that on two points. One is our retention rate remains very high, close to 98%, but also if you look at our year-over-year growth and net participant growth is 4%, that's two times the rate of the market. This idea that this concept of growing the business organically faster than the market remains true. We've talked about that in the past and we continue to see that growth. Despite Jon's point about de-conversions from time to time, the business continues to grow faster than the rate of the market. We're gaining share in our workplace business, and as we've shared with you before, that is a significant factor in driving the success of our Wealth business.

Gabriel Dechaine:
Okay, great. I'm going to definitely have to re-read that transcript because I couldn't write fast enough. Paul, it's been great talking to you over the years, and good luck and enjoy your retirement, and, yes, that's it. Thanks.

Paul A. Mahon:
Thank you, Gabe.

Operator:
The next question is from Doug Young with Desjardins Capital Markets. Please go ahead.

Doug Young:
Hi, good morning, and you can call me Gabe if you want to consider that. Maybe, Jon, if we can look at the LICAT ratio and just notice the seg fund component to the base solvency buffer went up quite a bit sequentially. I get there's new capital rules in place, but I mean this was a big move and I don't think of Great West and big seg fund risk. I mean, if I do the math and I take out the sequential increase in the seg fund ESP bump up, I think I'm getting to a LICAT without that of about 144, so it was a big impact on the LICAT ratio, but maybe I'm missing something. There's a lot going on, so did I get that right? Why such a big impact? Maybe you can just flesh that out.

Jon Nielsen:
Yes. Thanks, Doug, for the question. Yes, there was an impact from the new OSFI guidance on seg funds, and it impacted us both in terms of the base solvency buffer, but also, there was a CSM impact as well. You'll see that go through what we call adjusted retained earnings, including CSM. The overall impact of the transition was about two points to the LICAT ratio in the quarter, so overall, two points. You'll see that there were slight changes to our sensitivities as a result of that, but nothing significant in terms of the disclosed sensitivities, so two points higher and impacting two lines.

Since you brought it up, we did have a continued very strong quarter in terms of capital generation across the business. We indicated for the quarter, it was in excess of 80%, in line with the objective that we shared. But we continue to bring up excess capital from our operating divisions and that led to us ending with 130% overall LICAT, and, as you're aware, about $2.5 billion of cash now at Lifeco.

Paul A. Mahon:
Yes, Doug, I also want to just underline something you said at the outset. You said your perception was that we had a relatively less risky overall seg fund book, and I think that is a good characterization. We've had really good discipline over many decades with that book of business. We like the risk profile. I think it's well-managed both from an operational perspective and from an actuarial and financial perspective. I think you've captured that right, and then Jon provided a little colour there.

Doug Young:
Thanks, Paul. Jon, how much was dividended up from the opco to the holdco this quarter?

Jon Nielsen:

I think we disclosed that in the SIP, and the majority of it came out of Canada Life Insurance, around $1.1 billion.

Doug Young:

Okay, okay, and then second question, you mentioned it a few times, the lower earnings on surplus because of lower interest rates. It's kind of a strange thing to try to model, but can you help us think about mapping this earnings on surplus out going forward? Is this a reasonable run rate to be thinking about this, and is there going to be massive differences by each of the division? If you can help me think through that.

Jon Nielsen:

Yes, as we indicated, in terms of sensitivity to lower rates, it's about $80 million on an annualized basis, and half of it comes from surplus, from a movement in surplus, and that's principally impacted in Canada and in Lifeco where our duration is, call it, one to two years type of timeframe. The rest of our surplus has a little longer duration across the other segments, so I think that probably gives you the modelling points that you need to model it out.

Doug Young:

I appreciate the colour, and, Paul, thanks for everything, and all the best in retirement.

Paul A. Mahon:

Thank you very much, Doug.

Operator:

The next question is from Tom MacKinnon with BMO. Please go ahead.

Tom MacKinnon:

Yes. Thanks, and good morning. Just before I start, just want to congratulate Paul on a great, long career at Great-West and all the best to you as you move on to the next stages here.

Paul A. Mahon:

Thank you, Tom.

Tom MacKinnon:

Two questions. The first is really with respect to the insurance experience gains in the quarter, 14 positive. Really, if I look into the CRS segment pre-tax, negative 10. I mean the wildfire is at 21 after tax, call that 25 pre-tax. There seem to be about another 15 help in CRS. Maybe you can flesh that out and just talk about some of the other elements that contributed to that $43 million in help, if you will, positive experience that you note on that one slide. Thanks.

Paul A. Mahon:

Yes, over to you, Jon.

Jon Nielsen:

Yes, thanks, Tom, there's kind of three moving parts there. You called out the wildfires. As you recall, we said our maximum exposure there was about $100 million. That came in just over 20, so we think we've got that right. Obviously, there's some level of lag in reporting and so forth, but we feel very good about the provision there and how we've done that. The second thing that we've called out is the mortality that we experienced. Now, I mentioned that mortality impacted all of our segments, and longevity was also an impact in terms of what we saw across the segments, but a big chunk of that mortality came through CRS in the CRS division, but it did impact Canada and the U.K. as well.

The third element I mentioned in the script is we did have a provision release, and this went to the resolution, positive resolution of a contractual discussion with a client that we recorded in 2024. We're really happy that that's been resolved amicably, and they remain a client with us, so that was a good outcome. Those are the three moving parts within the CRS division in terms of that impact.

In terms of insurance experience, we did continue to see good experience in the LTD portfolio in Canada, just as more colour on insurance experience during the quarter, so we've continued to see good morbidity in that portfolio. We did have some residual impacts in Canada from the postal strike. It was hard to estimate how many so called letters were in the mail, and we saw a little impact from that, so just to give you a little more colour on what we experienced during the quarter.

Tom MacKinnon:

Have you disclosed what that provision release was? My guess is it could be around $20 million pre-tax or something.

Jon Nielsen:

Little bit bigger than the wildfires.

Tom MacKinnon:

Okay. All right. Thanks.

Jon Nielsen:

It was recorded last year in 2024.

Tom MacKinnon:

Yes, you're just reversing something from last year. Is that right?

Jon Nielsen:

Yes. We wanted to, obviously, follow accounting rules, be prudent last year, ongoing discussions, and as I say, we're really happy to resolve that. The client continues to be a strong client of the firm, a long-term client.

Tom MacKinnon:

Okay. Then, you talked about some seasonality in expenses, and if we look into Canada Wealth, the margin was weak. The OpEx was up. It's negative operating leverage, at least in the quarter here, so—and even in the Retirement, I think if we look at Canada Retirement, it was zero operating leverage. Maybe if you can talk about is there anything that we should be thinking about in terms of operating expenses, particularly in both the Wealth and in the Retirement, especially in the Wealth. I mean, the margin here is 18.9%, running at something 22.5 or something like that in 2024.

Paul A. Mahon:

Yes. For sure, Tom. What I'll do is I'll have Jon start off on with that one, and I know Fabrice will want to add a bit of colour. Jon?

Jon Nielsen:

Yes, Tom, I'm going to start with: we are going to do a better job at calling out seasonality impacts in our results every quarter. There are seasonal things across the business. First, start with first quarter, given our Wealth and Retirement businesses, there is some level of seasonality in the amount of fees that we get given the number of days. Then second, typically, we try to have a fast start to the year by having some marketing campaigns and so forth. That impacted the U.S. by just about $3 million, and that's pretty usual for first quarter that we would have elevated marketing expenses in the U.S., and then they kind of flatten off the rest of the year and expenses become more aligned with revenue growth. Just to call out that seasonality. In terms of Canada specific, I'm going to hand over to Fabrice to give you colour on expense management and what you're seeing in the different lines.

Fabrice Morin: Thank you, Jon, and thank you, Tom, for the question. For our Individual Wealth business in Canada, we're pleased with the results on expenses. I would say, as Jon said, there's a bit of seasonality in expenses. It's tax season. As you might know, in Canada the tax season was particularly complex this year with the back and forth on capital gains inclusion tax, and there was complexity in managing that. As Jon said, that doesn't relate to expense, but that will get to the point on margin.

We also see slightly lower revenue in Q1 just given the number of days where we collect fees in Q1, so historically, we would see that. The other thing I would call out is there's been a change in allocation. There's been a change in expense allocation where our Wealth business is getting more overhead as we've integrated some of our recently acquired businesses like IPC. These businesses now attract corporate overhead. Our overall expense across Canada is growing at low single-digit. We're very comfortable with the growth of our expense, but the Wealth business is attracting more expense since Q4 of 2024, and that's something that needs to be taken into account in the future. But overall, I would say on our Wealth business, we're pleased with our momentum in market. We've talked about the net flows improving. We've talked about early good results on the partnership with Primerica that we've announced in the past quarter, so our business is doing well.

If I turn to Retirement, because you also talked about our Retirement business, there, as well, we have a little bit of seasonality in expense given the cycles of reporting and statements. Q1 would be seasonally higher, but we're also investing more in the business right now than we have in the past, and that will recur in the future, just the geography of investment that we've made in our businesses. That's something we're going to see in Retirement. We believe in this business. Just like in the U.S., it's a business where it has strong strategic momentum for us and we are investing in this business, so that explains the expense level, in part, on Retirement.

Paul A. Mahon:

Yes, Tom, I was just going to underline the fact that that reallocation, if you think about that, that's overhead. We now have a larger Wealth business attracting more of the overhead, so you should sort of view that taking out some of the seasonality, that's a new normalized level because of that allocation. You'll see offsetting reduced expenses on a relative basis to the group and the insurance portfolios, and sort of think of that as the level that we're operating from, and it's an allocation issue. It's not a discipline issue in any way.

Tom MacKinnon:

Yes, and does that mean the margin in Canada Wealth is going be a little bit lower because you're allocating more overhead to it?

Fabrice Morin:

I think if you look at the pre-tax operating margin that we report in our supplementary package, we show around 19%. I think 20% would be a good run rate for the future. We're a bit lower this quarter, again, because of seasonality both in revenue and expense.

Tom MacKinnon:

Great. Thanks for the colour.

Paul A. Mahon:

Thanks, Tom.

Operator:

Once again, if you have a question, please press star, then one. The next question is from Paul Holden with CIBC. Please go ahead.

Paul Holden:

Yes. Good morning. First question is related to Capital and Risk Solutions. If I look at the run rate earnings growth trends, so ex wildfires are the breakout you provide in the slide deck, which is helpful, by the way, it actually points to like double-digit type earnings growth, which is better than the medium-term expectation you set of mid single digits. Is it possible you get higher growth for the year, and what's kind of driving that?

Paul A. Mahon:

I'm going to turn that one over to Jeff Poulin.

Jeff Poulin:

Thanks, Paul. Thanks, both Pauls. It's a good point. I think when we plan our business, it's always difficult to come up with the things you haven't done yet, so we're looking at the market the way it is. The plan is done. Thinking about the products that we have, we've come up with new ideas, new products, and we had a very good sale quarter in the first quarter. I think the run rate is going very well. Having said that, some of the older products are renewing at compressed margins, so that's a little bit of headwinds for us. I would expect that we might end up the year slightly better than the mid single digits that we said. It's been a really good first quarter, so we're hoping to continue going at the same pace, so if we do, it should look good.

Paul A. Mahon:

Yes, Paul, one of the things that I think is a feature of that business is innovation, constantly looking for new markets, because it is a business that we are—these are solutions and they're solutions for clients. They're looking for those, but it's also discipline. This was a quarter where it was really attractive business, so we wrote it. That's not a certainty every quarter, but Jeff's team is out there constantly looking for opportunity.

Jeff Poulin:

It is lumpy too, so one or two large transactions can make a big difference.

Paul Holden:

Got it. Okay, that's helpful. Then my second question, sort of in a similar vein, when I look at the group premiums in Europe, I think it was 13% year-over-year. You highlighted some FX benefit to that, but I think if I look over the last year, we're also seeing really good growth in that business pretty consistently. I feel like maybe there's a little bit of a positive story that's not being told there, so want to drill down on that. What is driving the double-digit growth, I think consistent double-digit growth in European group premiums?

Paul A. Mahon:
David?

David Harney:
Yes, yes, we are very happy with the performance of that book, and maybe we should call it out a bit more. There's three segments to it. It's our Group Risk business in the U.K. It's our Group Risk business in Ireland. Then it's the health insurance business in Ireland, and we have very strong market positions in all of those three books. I'd say over the last couple of years there's been two different dynamics within that, so if you go back to growth, say maybe 24 months ago, that we were seeing was largely driven by salary inflation in Ireland and the U.K. and just continued good employment levels. That drove growth in the premium income, and then more recently, there's been health insurance increases in Ireland just reflecting claims growth in the book, and that's driven more of the more recent increase. Yes, we're very happy with the performance of those books. There are the factors driving the premium increase. What you need to do to lock that in is having good retention, and we've got good sales levels on those books and that's supporting growth as well.

Paul A. Mahon:
Yes, and when we talk about Canadian leadership in Group and we talk about, obviously, Empower leadership in Retirement, we don't underline enough that we are a market leader in those businesses, and a meaningful market leader. It's something that we're really proud of, and David's team has done a great job building those businesses both from a sales and a retention basis, because that's the key to managing a successful group lock.

Paul Holden:
That point on the health insurance rate increases, that does remind me, I think it was two years ago when there was some negative experience there. Maybe just this quick follow-up you can address that the negative experience hasn't repeated.

David Harney:
Yes, so post-COVID, like what we've seen is an increase in the true cost in private hospitals. They've really worked hard on their efficiency and that drove the increase in claim levels. The contracts behind

the policies are one-year renewables, so the market then re-prices on experience, and that's what's driven the follow-on price increases.

Paul Holden:
That's good. That's helpful. Thank you, and Paul, thanks for everything over the years, and congrats on a very successful career and enjoy a well deserved retirement.

Paul A. Mahon:
Thank you very much, Paul.

Operator:
This concludes the question-and-answer session. I'd like to turn the conference back over to Mr. Khan.

Shubha Khan:
Thanks, everyone, for joining us today. Following the call, a telephone replay will be available for one month and the webcast will be archived on our website for one year. Our 2025 second quarter results are scheduled to be released after market close on Tuesday, August 5, with the earnings call starting at 8:30 AM Eastern Time the following day. Thank you again, and this concludes our call for today.

Operator:
This brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.