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Great-West Lifeco Inc.

Second Quarter 2025 Results Conference Call Transcript

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Time: **8:30 AM ET**

DISCLAIMER

CAUTIONARY NOTE REGARDING FORWARD-LOOKING INFORMATION

From time to time, Lifeco makes written and/or oral forward-looking statements within the meaning of applicable securities laws, including during the course of its Q2 2025 earnings conference call. Forward-looking information includes statements that are predictive in nature, depend upon or refer to future events or conditions, or include words such as "achieve", "ambition", "anticipate", "believe", "could", "estimate", "expect", "initiatives", "intend", "may", "objective", "opportunity", "plan", "potential", "project", "target", "will" and other similar expressions or negative versions of those words. Forward-looking information includes, without limitation, statements about the Company and its operations, business (including business mix), financial condition, expected financial performance (including revenues, earnings or growth rates, and medium-term financial objectives), strategies and prospects, expected costs and benefits of acquisitions and divestitures (including timing of integration activities and timing and extent of revenue and expense synergies), the timing and extent of expected transformation charges, expected expenditures or investments (including but not limited to investment in technology infrastructure and digital capabilities and solutions and investments in strategic partnerships), the timing and completion of the acquisition by IPC of wealth assets of De Thomas Wealth Management, value creation and realization and growth opportunities, product and service innovation, expected dividend levels, expected cost reductions and savings, expected capital management activities and use of capital, the timing and extent of possible share repurchases, market position, estimates of risk sensitivities affecting capital adequacy ratios, estimates of financial risk sensitivities (including as a result of current market conditions), expected net plan inflows, anticipated global economic conditions, potential impacts of catastrophe events, potential impacts of geopolitical events and conflicts and the impact of regulatory developments on the Company's business strategy, growth objectives and capital.

Forward-looking statements are based on expectations, forecasts, estimates, predictions, projections and conclusions about future events that were current at the time of the statements and are inherently subject to, among other things, risks, uncertainties and assumptions about the Company, economic factors and the financial services industry generally, including the insurance, wealth and retirement solutions industries. They are not guarantees of future performance, and actual events and results could differ materially from those expressed or implied by forward-looking statements. Many of these assumptions are based on factors and events that are not within the control of the Company and there is no assurance that they will prove to be correct. With respect to possible share repurchases, the amount and timing of actual repurchases will depend on the earnings, cash requirements and financial condition of the Company, market conditions, our ability to effect the repurchases on a prudent basis, capital requirements, applicable law and regulations (including applicable securities laws), and other factors deemed relevant by the Company, and may be subject to regulatory approval or conditions. With respect to expected net plan inflows of Empower's Retirement business in the second half of 2025, management's estimate is based on the sum of anticipated sales (excluding stock plan services) plus anticipated institutional net flows, net of estimated plan terminations. Management has also assumed that performance of Empower's Retirement business during the second half of 2025 is consistent with its expectations, which take into account current market information, and that actual sales, the ability to maintain or improve client retention and capture rates per management's estimates, and customer behaviour (including contributions, redemptions, withdrawals and lapse rates) are consistent with management's estimates. Statements about historical credit experience are not intended to be indicators of future credit experience. In all cases, whether or not actual results differ from forward-looking information may depend on numerous factors, developments and assumptions, including, without limitation, the ability to integrate and leverage acquisitions and achieve anticipated benefits and synergies, the achievement of expense synergies and client retention targets from the acquisition of the Prudential retirement business, the Company's ability to execute strategic plans and adapt or recalibrate these plans as needed, the Company's reputation, business competition, assumptions around sales, pricing, fee rates, customer behaviour (including contributions, redemptions, withdrawals and lapse rates), mortality and morbidity experience, expense levels, reinsurance arrangements, global equity and capital markets (including continued access to equity and debt markets and credit instruments on economically feasible terms), geopolitical tensions and related economic impacts, interest and foreign exchange rates, inflation levels, liquidity requirements, investment values and asset breakdowns, hedging activities, financial condition of industry sectors and …/6 - 6 - individual issuers that comprise part of the Company's investment portfolio, credit ratings, taxes, write-downs of goodwill and other intangible assets, technological changes, breaches or failure of information systems and security (including cyber attacks), assumptions around third-party suppliers, changes in local and international laws and regulations, changes in accounting policies and the effect of applying future accounting policy changes, changes in actuarial standards, unexpected judicial or regulatory proceedings, catastrophic events, continuity and availability of personnel and third-party service providers, unplanned changes to the Company's facilities, customer and employee relations, levels of administrative and operational efficiencies, and other general economic, political and market factors in North America and internationally.

The above list is not exhaustive, and there may be other factors listed in the Company's filings with securities regulators, including those 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". These, along with other filings, are available for review at www.sedarplus.com. The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to place undue reliance on forward-looking information.

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.

Speakers:

Shubha Khan
Senior Vice President and Head of Investor Relations

David Harney
President and Chief Executive Officer

Edmund F. Murphy, III
President and Chief Executive Officer, Empower

Jon Nielsen
Executive Vice President and Chief Financial Officer, Interim Chief Investment Officer

Jeff Poulin
Chief Executive Officer, Reinsurance

Fabrice Morin
President and Chief Operating Officer, Canada

Operator:
Welcome to the Great-West Lifeco Second 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, Gaylene. Hello, everyone, and thank you for joining the call to discuss our second 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 adjustments, terms and definitions used in this presentation.

Turning to Slide 3. I'd like to introduce today's call participants. Joining us today are David Harney, our President and CEO; Jon Nielsen, our Group CFO; Fabrice Morin, President and COO, Canada; Ed Murphy, President and CEO, Empower; Lindsey Rix-Broom, CEO, Europe; Jeff Poulin, CEO, Reinsurance; and Linda Kerrigan, Senior Vice President and Appointed Actuary.

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

David Harney:
Thanks, Shubha. Please turn to Slide 5. As I step into the role of CEO, I want to begin by reaffirming our direction. Our strategy is clear, consistent and it's working. Over the past several years, we've built

leading market positions, delivered solid earnings growth, and shifted towards a more capital-efficient business mix. We remain focused on executing the strategies outlined at our recent Investor Day to drive growth and deliver lasting value for our stakeholders.

Our teams remain central to our success. I'd like to highlight a few recent leadership updates.
Jon Nielsen has resumed responsibilities as Interim Chief Investment Officer in addition to his role as Chief Financial Officer. This will ensure continuity as we continue to drive value from our global investments capability.
Lindsey Rix-Broom, formerly CEO of Canada Life U.K., has joined our Global Leadership Team as CEO of Europe. Emma Watkins will join Lifeco in September, succeeding Lindsey as CEO of Canada Life U.K.

We're making strong progress against our medium-term objectives. Our businesses are well on track to meet or exceed those ambitions. We delivered another record quarter of base earnings, supported by broad-based organic growth and healthy capital and cash generation. The U.S. has been a key growth engine and Empower continues to perform strongly. We've taken further steps to enhance Empower's value proposition, expanding their product line-up to better meet evolving participant needs and sharpen our competitive edge in the market. Ed will share more on this shortly.

Our balance sheet remains a core strength. Despite ongoing macroeconomic and trade-related uncertainty, we're in a strong financial position. This has enabled us to return capital to shareholders through our Normal Course Issuer Bid and raise our full year buyback target to $1 billion, all while preserving the flexibility to invest in future growth.

Please turn to Slide 6. Looking ahead, we have the strategy, priorities and positioning to win by offering our clients simple, technology-enabled experiences. Our strategy continues to be guided by the playbook we introduced at Investor Day. It builds on our market leadership, expands into adjacent growth areas, and emphasizes disciplined, capital-efficient investment in our brand and capabilities. Where it makes sense, we'll continue to use M&A to accelerate progress and strengthen our competitive position.

To bring this strategy to life, I'm focused on four execution priorities.

Number one, our customers are at the heart of everything we do. We're deepening our understanding of their needs and continuing to deliver solutions that build trust and affinity.

Secondly, we will leverage technologies to transform how we serve clients, make decisions, and operate. AI and digital innovation will help enable more personalized and intuitive experiences, making us a more human financial services company.

Thirdly, as we mentioned at Investor Day, we're investing significantly over the medium term to strengthen our operating leverage and execution. We're doing this by driving efficiency, agility, and discipline to simplify processes, reduce friction, and deliver consistent, scalable, quality outcomes.

Finally, we continue to invest in leadership culture and capabilities to ensure teams are empowered to lead, innovate, and deliver. We have an exceptional team with deep experience and we are an attractive destination for market talent.

Please turn to Slide 8. As outlined at Investor Day, there are strong tailwinds supporting growth in our markets. These demographic, economic, and social trends, combined with our strategic playbook and our four execution priorities, give us confidence in delivering on our medium-term financial objectives of 8% to 10% (base) EPS growth; 80%+ (base) capital generation; (base) return on equity of over 19%; and a (base) dividend payout ratio of 45% to 55%.

Now turning to our results on Slide 9. We are pleased to report a strong second quarter driven by solid execution across our business. We delivered double-digit base earnings growth, with base EPS up 12% year-over-year and a strong base ROE. Our financial position remains healthy, supported by a robust balance sheet, as well as strong regulatory capital and leverage ratios. We continue to take a disciplined approach to capital allocation. So far this year, we've repurchased $432 million in common shares and we're raising our full-year buyback target to $1 billion, reflecting confidence in our growth outlook and commitment to long-term shareholder value.

Please turn to Slide 10. We delivered solid performance across our retirement businesses this quarter. Excluding credit-related impacts and a one-time fee income adjustment in 2024, base earnings grew by 12% year-over-year. Empower was a key driver, supported by a growing asset base and number of participants, along with enhancements to its value proposition for sponsors and participants, which, as I said, Ed will speak to shortly.

Our Wealth businesses remained strong, with base earnings up 15% year-over-year, driven by fee growth. Empower delivered exceptional net flows and sustained momentum in Personal Wealth, reinforcing that our strategy to capture money in motion through rollovers and crossovers is working. In Europe, we saw healthy retail flows. While partially offset by a one-time institutional withdrawal, our focus on serving the mass-to-mass affluent markets continues to gain traction. In Canada, our Wealth platform continues to advance and we've enhanced our offering to better meet client needs, including a new partnership with ClearEstate to support estate planning.

Please turn to Slide 11. The quality results from our insurance businesses this quarter highlight the strength of our diversified portfolio.

In Group Benefits, base earnings rose 17% over the prior year. We continue to lead the Canadian market with steady growth across the business. Our disability offering remains a key differentiator, delivering results and reinforcing our leadership position. We've maintained a disciplined approach to pricing in this business, ensuring long-term value for both clients and stakeholders.

Capital and Risk Solutions continue to grow organically, supported by deep expertise in market demand. We also made a strategic decision to exit U.S. traditional life mortality reinsurance market, reflecting our strategy of focusing on areas, including Capital Solutions business, where we see clear paths to leadership. In the U.K., we continue to expect to see healthy growth in both individual and bulk annuities and our focus remains on optimizing and growing this portfolio in a disciplined and sustainable way.

I'll now pass it to Ed to cover the performance at Empower in a bit more detail.

Edmund F. Murphy III:
Thank you, David, and good morning, everyone.

Please turn to Slide 13. I'll begin highlighting the strong performance of Empower this quarter, followed by a deeper dive into a few of our recent product launches that differentiate Empower from the competition.

Empower delivered another quarter of strong base earnings growth despite elevated market volatility. Base earnings increased 13% year-over-year, excluding the credit-related impacts in Q2 of this year and last, as well as a favourable one-time fee adjustment in the prior-year quarter. The core operations continue to perform in line with our expectations of sustained double-digit growth over the medium term.

Despite a large plan deconversion in the quarter, workplace client assets grew 10% to US$1.7 trillion, while the number of participants we serve increased by 500,000 to 18.5 million. Empower has a track record of winning market share, and despite the impacts of the deconversion of the second quarter, we expect to generate at least US$25 billion in net plan inflows through the remainder of 2025, supporting continued growth in client assets.

Empower Wealth continued its solid track record of inflows, which increased 83% to US$2.9 billion. This was driven by continued strength in rollover and crossover sales, as well as strong customer retention.

Please turn to Slide 14. As Empower has continued to deliver strong base earnings growth, we've been working hard to keep strengthening the value proposition for plan sponsors and participants alike. I want to take this opportunity to highlight some of Empower's recent initiatives.

In April, Empower announced the first ever zero fee S&P 500 index fund for our workplace customers. This product is a significant win for clients, with zero management fees, trading fees, and no hidden account fees. We are setting up clients for their best chance to maximize their investment returns. At the same time, it allows plan sponsors to better fulfill their fiduciary responsibilities.

In addition to its public markets offering, Empower is now at the forefront of democratizing access to private market investments for Americans.

In May, we announced the launch of a new program to offer private market investments to the nearly 19 million defined contribution plan participants that we serve, enabling access to an asset class previously reserved exclusively for institutional and high net worth investors.

We believe strongly that the attractive risk-adjusted returns these strategies have generated historically offer significant upside to client retirement portfolios.

We are committed to providing responsible access to these solutions, which means they will only be offered when approved by plan sponsors after a thorough due diligence process, and only when selected through an advisory relationship with clients, and within appropriate exposure limits.

We have partnered with seven top-tier global investment managers to bring compelling investment strategies at attractive price points to our growing client base.

The zero fee index fund and private market announcements build on other in-flight initiatives, including the administration of health savings accounts and equity compensation plans.

With almost 19 million participants on our platform, we have a tremendous opportunity to increase product penetration with our industry-leading partner. We believe health savings accounts represent a significant growth opportunity as we move forward.

With the acquisition of OptionTrax in September last year, we have also added a leading digital stock plan administration platform to our suite of services.

In aggregate, we have significantly enhanced Empower's appeal to plan sponsors as a one-stop shop for workplace financial solutions that allow them to better fulfill their fiduciary obligations, and our expanded product offering serves to enhance the client experience for participants, making us a more likely destination for rollover assets. This gives us a significant confidence in the double-digit growth outlook for the business over the medium term.

With that, I'll turn it to Jon Nielsen to discuss Lifeco results for the quarter. Jon?

Jon Nielsen:

Thanks, Ed, and good morning.

Please turn to Slide 16. Following a sharp pullback in early April, global equity markets quickly reversed course over the remainder of the quarter, with many major indices ending near all-time highs. This recovery provided support for solid year-over-year asset growth, and, more importantly, positions us well for the second half of 2025.

Turning to Slide 17. Lifeco once again delivered double-digit base earnings growth, driven by underlying strength in our capital-light businesses, especially Wealth and Group Benefits. While base earnings included a benefit from a change in tax estimates, it was principally offset by credit-related impacts in the quarter.

Base ROE improved year-over-year to 17.4% on higher base earnings and significant share buybacks this quarter.

Net earnings were adversely impacted by market experience. Additionally, this quarter we recorded $121 million of business transformation costs that I'll provide additional context in an upcoming slide.

Please turn to Slide 18. Credit-related impacts during the quarter were related to bonds issued by water utilities in the United Kingdom. The government has just completed a review of the sector, which we expect to result in a positive impact in the future for our remaining holdings. However, we continue to monitor and work with other senior bondholders on the restructuring of one of the larger water utilities. We'll continue to monitor this situation closely.

During the quarter, there were no credit-related impacts in our Commercial Real Estate portfolio in the United States. It is important to put our credit experience in context over the longer term. Looking back over the past decade, Lifeco's credit experience has averaged only three basis points of our fixed income investments. This experience is well ahead of industry benchmarks, demonstrating our conservative and disciplined investment approach. There will continue to be idiosyncratic events from time to time, but these are expected to be infrequent and of modest impact. We expect credit-related impacts for the remainder of the year to be more in line with what we've seen in recent years. Further, our full-year experience is expected to be well below our long run, through-the-cycle actuarial assumptions.

Turning now to our results by segment starting with Slide 19. In Canada, base earnings were up 4% year-over-year due to solid performance across our businesses, especially Group Benefits. Base earnings growth was up *17% over the first quarter of 2025* [*sic: 19% quarter over quarter*].

Turning to Slide 20. In Europe, base earnings increased 11% year-over-year, driven by higher fee income in Wealth and the appreciation of the Pound and Euro. Excluding the impact of lower earnings on surplus due to higher remittances last year, base earnings in constant currency was also up double digits.

Most top line drivers continue to perform well, with net flows in our Retirement business doubling, retail net flows in our Wealth business tripling, and Group Benefit sales up 29% year-over-year.

Bulk annuity sales have moderated in recent quarters, even though the longer-term outlook for the industry remains very robust. Lower bulk annuity sales this year primarily reflect deferred demand in anticipation of regulatory changes.

Turning to Slide 21. Within Capital and Risk Solutions, base earnings were up 15% year-over-year on strong new business volumes in Capital Solutions and improved Risk Solutions experience.

Turning to Slide 22. Lifeco's efficiency ratio improved 80 basis points year-over-year to 56.7%. We aim to reduce this ratio to below 50% over time through both business growth and expense discipline. As we announced at our Investor Day in April, we've embarked on a number of transformation initiatives designed to improve productivity over time. We expect to incur $250 million to $300 million post tax charges related to these initiatives as I disclosed at the Investor Day, with these associated benefits to be recognized over the medium term. As I mentioned, this quarter, we reported $121 million of those transformation costs, the majority of which related to Canada.

Turning to Slide 23. Our base capital generation continues to exceed 80% of base earnings during the quarter. This quarter, remittances were below our trailing 12-month average of $1 billion mainly as we retained cash in the United States to repay a bond maturing in the third quarter.

Turning to Slide 24. Lifeco's strong balance sheet results in significant financial flexibility. Our LICAT ratio increased two percentage points from the prior quarter to 132% due to strong capital generation outpacing remittances. Our LICAT ratio has a degree of seasonality, which, by the fourth quarter, will reduce our LICAT by around one to two points.

Our leverage ratio remains steady quarter-over-quarter at 28%, but is 27% on a pro-forma basis, net of the repayment of an upcoming bond maturity of US$500 million.

Lifeco's cash balance of $2.1 billion remained strong despite significant share repurchases completed in the second quarter. Through June, we had repurchased $432 million of the previously-announced $500 million of shares. Our strong financial position and highly cash-generative business supports our announcement today of our plan to repurchase an additional $500 million of shares in the second half of 2025.

With that, I'll turn it back to David for concluding remarks.

David Harney:
Thanks, Jon. Please turn to Slide 26. As we enter the second half of the year, we're focused on driving continued growth through a consistent strategy and clear priorities backed by favourable long-term trends. With strong in-market leadership and a deep bench of talent across the organization, we have the right team in place to deliver. Our performance this quarter, including record base earnings, demonstrates the impact of our strategy and strength of our business. We're on track to meet, or even exceed, our medium-term financial objectives, all while continuing to deliver lasting value for our stakeholders. We're focused on the right businesses, in the right markets, and are well-positioned to help clients build lasting financial security at a time when it's more important than ever.

Empower continues to lead the way, investing in its brands, capabilities, and product offerings to meet evolving client needs and make the financial journey simpler and more accessible.

Our continued financial strength and flexibility are key enablers of this success, allowing us to navigate changing market conditions with confidence while continuing to invest in the future. Thank you for your continued trust and partnership, and I look forward to reconnecting with you all in the fall.

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

Shubha Khan:
Thank you, David. 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'll do our best to accommodate if there's time at the end.
Gaylene, we are ready to take questions now.

Operator:
Thank you. We'll now begin the analyst question-and-answer session. 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 Paul Holden with CIBC. Please go ahead.

Paul Holden:
Thank you. Good morning. A couple of questions for you with respect to capital allocation. Obviously, you indicated you intend to buy back another $500 million of stock through the end of this year, and then also it looks like you're going through some continued de-levering, and I think both good, but just wondering if that has anything to do with what you're seeing on the M&A environment, i.e. lack of opportunity, or is this really just a matter of your strong cash flow generation?

David Harney:
Well, I think it's primarily a reflection of our strong capital position and financial position at the moment, I think we've been very clear on our capital allocation priorities. Number one is maintenance of a very strong balance sheet, which we have at the moment. Number two is to give us the flexibility in organic growth, and we've ample resources for that, and then it's to pay dividends. We remain open on M&A and keen on M&A, but I think it's important to say our medium-term financial objectives are not in any way dependent on M&A, and M&A done properly and well, will add to those.

Our recent track record, I think, on M&A points to where we continue to look. Like, obviously, we've had very successful large-scale acquisitions and integrations in the workplace. We've had a number of very successful wealth acquisitions in the U.S. and smaller ones in Canada and Europe, and all of those continue to be areas as well. Our priority target area probably continues to be workplace in the U.S. We remain sort of focused and open to opportunities there. And the last thing I would say, maybe just on the size of the share (buy)back, just to put that in context of our financial position, we have $2.1 billion in cash at the moment. Our LICAT ratio is 132%. That will decline slightly in the second half, but at 130%, we'll be well above our operating target, and we expect our leverage to reduce further with some payback on debt maturities in H2. One billion in the overall context of our financial strength is not that much at the moment and gives us plenty of financial resources, should the right opportunity arise.

Paul Holden:
Got it, got it. Okay. Second question will be for Ed. Just looking at that large plan withdrawal in the Retirement business. I would say retention is obviously an important part of the objective of growing 2x industry growth. Maybe you can quickly, maybe summarize what happened in this situation, give us kind of a history of withdrawals or retention rates, and if you feel there's any actions Empower needs to take to minimize future large plan withdrawals. Thanks.

David Harney:
I'll let Ed go to that in a moment, and maybe just to introduce, I would like to just say that it has been a very strong quarter for Empower again, and I think the year-over-year performance is a great indication of why we continue to expect double-digit growth for Empower. Net plan performance over the full year is going to be very strong. That goes a long way to offset the participant outflows. We're seeing good growth—continued growth in the Retirement and the Wealth. If you look at the fee income growth, asset-based revenue has grown 1%. Participant fee income, though, has grown by over 10%. We're continuing to increase the rollover rate in the Wealth business, and you'll see Wealth income has grown by over 20%. All of those add up to the 13% growth that we see year-over-year for Empower. The shape of that performance is a good map of what we expect to see from Empower going forward. Ed can talk more specifically just on the net plan performance this year and what's driving that.

Edmund F. Murphy III:
Yes, thanks, David. Thanks for the question, Paul. I feel incredibly confident about our Workplace business. Again, if you net everything out, we continue to grow at two times the rate of the market. Our pipeline is at the highest level it's ever been, US$260 billion in pipeline. When you think about that in the context of our win rates, in our large mega market not for profit, we win 42% of the opportunities. In

the government market, we win 60% of the opportunities, and in the Taft-Hartley Union market, we have a 65% win rate. If you look at our retention and you look at it over the last five years, let's just say, it's consistently been somewhere between 97.5% and 98%, between 97% and 98% retention, which is very, very strong, and our net promoter scores are exceedingly high too.

I think the one thing to keep in mind is that, particularly in that large mega corporate market, they are typically going out to bid every three to five years. Despite that, our retention rates remain very, very high. As I've shared with you in the past and we highlighted a bit further today, we've really expanded our product capabilities, Paul, and effectively built a multidimensional capability that, if we deliver for the client, it really becomes more difficult for them to leave, in the sense that we have more hooks and more tentacles into the client because we're providing a diverse set of services. As we outlined earlier, we fully expect net plan sales for the year to be north of US$20 billion in terms of net plan sales. As we've shared historically, we will have some ups and downs, you will have some defections from time to time, but if you look at the overall business and you look at the health of the business and you look at the pipeline and the win rates and the fact that we're growing at two times the rate of the market, I feel really good about our position.

Paul Holden:
That's great. That's it for me. Thank you.

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

Doug Young:
Hi, good morning. The question is for Jeff on CRS, and it was announced that you're no longer going to be writing new U.S. traditional life reinsurance business. Can you talk a little bit about why, what you're seeing? Does this at all impact the targets that you set out at Investor Day, and maybe kind of wind in, is there any impact on what you're seeing for the rest of Great-West Life's businesses?

David Harney:
Straight over to you, Jeff.

Jeff Poulin:
Yes. Thanks, Doug. Good question. Yes, obviously, this was not an easy decision for us. We've thought long and hard about it, but to be honest, the last five or six years, we hadn't been very active in the market. We've stayed very disciplined and just couldn't get the return that we're looking for in that type of business. Our plans right now is just the run-off of the business. It's been like that for a few years. I don't expect it's going to affect our results going—it won't affect our results going forward. Our plan is to focus on more capital solutions and other risk solutions where we've been able to achieve better return.

It's a very competitive market in the U.S. and it's been difficult to achieve the returns we want, and because of that, we've had to make this decision. We feel pretty good about it. We intend to run off and continue to provide the same great service that we have to our clients. I think the block business will take 20 years to 30 years to run off, so we're very much still in the mortality business for a while, but not from a new business perspective.

As far as how it's going to affect the rest of Great-West businesses, it's hard for me to say. Maybe Fabrice is better to handle that, but we're not in the mortality business in the U.S. elsewhere and I don't believe that's going to have a big effect on us anywhere else. We're still a provider of capital relief on the Group side and we do a lot of Group mortality business and that's been a good business for us. I don't expect any effect from this decision really. It will have minimum impact on expenses, but we intend to re-deploy most of our employees into other businesses. Hopefully that answers your question.

Doug Young:
No, it does, and then just a follow-up—oh, sorry, go ahead, David, sorry.

David Harney:
Yes, no, I think this is the right decision. Like the U.S. market is just not attractive for us. Mortality in other markets is very good, and we're doing very well on that, and the growth outlook for CRS absent mortality is very strong. This is just a very good example of discipline as we look at different markets.

Doug Young:
Then just a follow-up on the CRS. I know the insurance experience has been—it's not huge negative, but it has been negative for two quarters in a row. Is this related to the U.S. traditional reinsurance

business, or is there anything to be concerned with in terms of what you're seeing from an experience perspective in the CRS business?

Jeff Poulin:
Yes, I thought our experience was on target this quarter, or if it is negative, it's only slightly negative. Last quarter because of the reserve on the California fire and then our mortality was off, but this quarter we don't have any event that has affected—It's a really good quarter. It's a clean quarter from our perspective and it's 15% growth year-over-year. We're pretty satisfied with the quarter, and I'm not sure I see what you're saying. I think our mortality was 101% of expected, so right on target, really.

Doug Young:
Okay. No, that's fine. Then just lastly, Ed, you talked about net plan sales being over US$20 billion. I think that's for this year. I just want to confirm when I look—and this is for the U.S. retirement business, U.S. dollar basis. Does that include both participant close and plan ongoing, because I believe the US$25 billion you're talking about is just plan ongoing, but maybe it's net and including plan ongoing and the participant side? Just want to make sure I understand.

Edmund F. Murphy III:
That's just the plan number. That's not the participant number.

Doug Young:
Okay, and on the participant side, you have had gradual—well, not gradual, you've had decent net outflows, and I get that—where that's coming from. That's people retiring, pulling their money out. Do you have line of sight? It seems like you have line of sight of what you've won, obviously, on the plan side, but you must model it at the participant side. When do you start to see that net outflow, that natural net outflow on the participant side abating to a greater degree?

Edmund F. Murphy III:
Well, if you look at the long-term demographics, the guidance that we've given is we expect it to be somewhere between 0.5% and 1% a year just due to the changing demographics and the fact that you have 10,000 baby boomers turning 65 every day in the U.S. But keep in mind, we shared with you the results for the quarter. If you look at the success rate and the capture rate that we have, and it continues to improve and increase, we captured US$2.9 billion in net flows in our Wealth business, and

most of that is coming from participant flows that are coming off the Workplace platform. There's money that is leaving the complex, but there's also a fair amount of money that's staying within the complex, particularly as our 19 million customers begin to realize the capabilities that we have from an Empower Personal Wealth perspective. That's the way I would think about it. Our goal is customers for life. They may change jobs, they may retire, but we believe we have a compelling solution for them despite the fact that they're no longer actively employed.

Doug Young:
Just one quick follow-up. The U.S. Wealth side, what was the capture rate, the rollover rate this quarter, and relative to—I'm just trying to get a trend idea, what was it this quarter relative to last year and where you think you can take it again?

Edmund F. Murphy III:
Yes, what I would say is that our efficiency and our effectiveness and the strength of our value proposition continues to increase, and as such, the capture rate this past quarter was the highest we've experienced. Now, that too can ebb and flow. There are events that oftentimes drive those rates higher, but if you just look at the momentum that we have there—and it underscores, again, the strength of the value proposition, as we continue to build out our capabilities on the Personal Wealth side of the business and build out the product set. If you look at it on a full-year basis, as I look into the balance of 2025, you'll see a dramatic increase in net new assets on our platform. The only other point I would make, if you look at our performance vis-à-vis the assets that we have under administration and you look at that net new asset calculation, it's very, very high relative to our competitors. We would be top decile of RIAs in the country in terms of net new assets as a percentage of AUA, and I suspect that's going to continue and improve over time.

Doug Young:
Appreciate the colour. Thank you.

Edmund F. Murphy III:
You bet.

David Harney:
Yes, and maybe just to add to that, I think the last 12 months are just a great example of the performance of the Empower business. At an industry level, there's about 2% participant outflow and that's to do with baby boomers retiring, and we expect that to last for maybe the next five to six years. Our net plan inflows then mean we reduce that 2% to less than 1% on our own book, and nobody else—no one else's experience is as good as that, and then what we're also doing is improving the rollover rate. You'll see our Wealth fee income is up over 20% year-over-year. All of those factors, they show the performance of the Empower business and why we expect double-digit growth going forward. Okay. Next question.

Operator:
The next question is from Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca:
Good morning. Maybe a question, going back to Ed for a moment here. These initiatives that you outlined on Page 14, they seem, but they're not—this is not a cheap thing to do. This is going to take some spending. The question is: have these initiatives already been—have the expenses already been incurred or are these still on the way?

Edmund F. Murphy III:
I can take them one by one. With respect to offering private asset investments, there's not a material investment associated with that. Obviously, there's distribution support. There's working with our partners, so I would say, for all intents and purposes, the investment there, which is de minimis, is reflected. In terms of the opportunity of the health savings account, which I think is significant, in fact, with the Big Beautiful Tax Bill here in the United States, we expect the penetration to increase by over 20%. You're going see a significant amount of Americans adopting health savings accounts as we continue to see the shift to consumer directed healthcare and high-deductible health plans.

We think that's a tremendous opportunity for us, and I would say, for all intents and purposes, the expense there is largely reflected as well. It's not an incremental expense. We're working through a partnership there. Then with regard to the equity plan admin platform, we built that platform. We are investing in that business, but it's largely a function of the integration investment that we set aside to create that seamless solution for clients. I would submit that the expenses are largely reflected in the current year plan and what we expect next year.

Mario Mendonca:
Okay. A quick follow-up, then. It appears that the fees generated in U.S. Retirement—and I'm just talking about a rudimentary calculation of your fee income to average assets—it seems like it did take a bit of a step down. Is this more of a seasonality issue, is it mix, is it competition, or maybe let me start by saying, do you agree with the notion that the fee income relative to the assets is moderating somewhat?

Edmund F. Murphy III:
Yes, it's a good question. It's primarily driven by mix and the diversification of our revenue stream. If you think about the growth in the business that we're experiencing, a lot of it is fixed fee, per participant fee, particularly in that large mega market. It's not asset-based fees. That's where you're seeing mix play out, and you're not seeing the correlation, as you're indicating. Then, as we've said over time, we continue to diversify the revenue stream. If you go back several years ago, we were probably 60% asset-based. Now we're sub 50% asset-based. That's really what you're seeing play out there in terms of that differential.

Mario Mendonca:
All right, thank you.

Edmund F. Murphy III:
You bet.

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

Tom MacKinnon:
Yes, thanks. Good morning. Just a question with respect to the credit hit. If I look in the U.S. at Empower, you've got about C$80 billion in kind of spread-based account balances largely that's related to stable value product, and on that, you took C$63 billion pre-tax credit from this U.K. water utility, but in Europe, you've got nearly $50 billion in balance sheet assets. That's probably mostly U.K. spread-

based again from U.K. bulk and payout annuity business, yet you don't have any—well, correct me if I'm wrong, you don't have any exposure to this U.K. water utility and you've actually had positive credit experience. Maybe just help me understand a bit of the disconnect between these two spread-based businesses, and is there any accounting differences with respect to how you're accounting for credit hits at Empower versus credit in Europe, and just confirm that there's no exposure to the U.K. water utility in your Europe book? Thanks.

David Harney:
Thanks, Tom. I'll hand over to Jon.

Jon Nielsen:
Tom, thanks for pointing that out. Just to start with, in terms of our exposure to that particular utility, it's around—after the credit hits that we've taken, it's around C$180 million, less than 1%, or 1.1% of the overall portfolio, so it's a fairly small holding. As we mentioned, the whole sector's undergone a review by the government. We think that review is, overall, net positive for the sector, and in terms of the outlook outside of that name, it's fairly positive. We do hold a number of exposures within our U.K. portfolio for other water utilities. This one was held across portfolios.

Obviously, financial markets are becoming global, and we're becoming a more global investor as they globalize. These issuers are issuing in different currency and we're originating these assets and putting them against liabilities across our balance sheet. It's not unusual that we hold securities across portfolios where it meets our ALM standards, but principally our balance sheets will be local issuers, but it's not unusual to have them across the portfolio.

There is an accounting nuance between our European and U.S. balance sheets. From a European standpoint, you would have seen us take credit experience on these holdings over the prior quarters as we mark to market those securities. Whereas in the U.S., it's more of a judgment call as to collection of principal and interest, and as a result of the unwind of the private solution this quarter, we made the judgment in our U.S. portfolio that the security was not going to be fully collected in terms of principal and interest and we wrote it down this quarter.

As we look at this situation, we're monitoring it closely. We're sitting with other senior bondholders. There is a level of binary outcome in terms of how that works out, either a senior creditor solution, which we think could provide some upside, and you've seen the security trade upwards since June 30 in anticipation of that probability, or the downside scenario is a special administration government workout. Now, we think the probability of a private solution is more likely. We anticipate some resolution of this in the third quarter as that solution and the government makes the call in terms of private solution. Down to 0.1%, and you're right to point out a slightly different accounting nuance between the segments.

Tom MacKinnon:
Yes. Okay, and just a quick follow-up on that, can you confirm there's no exposure to this U.K. water utility that you took a hit on in Empower? There's no exposure in your Europe book to that?

Jon Nielsen:
No, as I mentioned, there was exposure. We had taken the credit experience as the credit spread had changed in our European book in prior quarters. We're now fully marked to market at the estimated market value. We've taken all of the experience to date through June.

Tom MacKinnon:
How come you don't use that—that's IFRS 17 methodology. How come you don't use that methodology for your U.S. business then? Why isn't it mark to market with a liability that has a credit spread impact on it?

Jon Nielsen:
Those are investment contracts. Our particular methodology looks at when is the principal and interest recoverable, and it was a judgment of the team on that, with the restructuring that occurred this quarter.

Tom MacKinnon:
All right, and maybe just one thing on Canada Wealth. We have assets kind of up, but we've got base earnings before tax down both year-over-year and year-to-date. What are you seeing there with respect to fees or margin? It seems to be down a little bit. Is there any outlook you can give us for Canada Wealth? Thanks.

Fabrice Morin:
Thank you, Tom. Fabrice Morin here. Thanks for the question. We're very pleased with the performance of our Wealth business in Canada. As I mentioned on our Q1 call, there was a one-time expense reallocation at the beginning of this year between our Wealth business and our other businesses, not an increase in expense. As we've acquired businesses and wealth, these businesses are attracting more of our group overhead, you need to correct for that. You will also see in our supplemental that our spread income is down a little bit in Wealth Management.

The sum of these two things would account for about $14 million pre-tax, I believe, and would more than offset the declines that you see year-over-year. If you adjust for these one-time items, we actually see growth year-over-year. Again, we're pleased with the performance of our Wealth business. Our seg fund net flows are improving markedly on the back of investments that we've made and experienced, on the back of new programs that we have with advisors, on the back of partnerships like the one we have with Primerica that I've talked about in prior calls, so we see the fundamentals of our Wealth business being very positive.

Tom MacKinnon:
Okay. Thanks for that.

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

Gabriel Dechaine:
Good morning. Can I ask you to repeat or maybe get a bit more detail on a comment you made earlier? I believe you were talking about the whole money leaving the retirement business in the U.S., but the retention. Did you quantify any retention rates that are getting reflected in your Wealth—U.S. Wealth business inflows, which have been pretty consistent and moving higher?

David Harney:
Yes. Do you want to comment, Ed? Go ahead.

Edmund F. Murphy III:

Yes, I was just saying that generally we haven’t given specific statistics on retention other than to say that the capture rates continue to increase, and we expect that to continue. What I said was that the key metric that we focus on in our Personal Wealth business is net new assets; that’s gross sales minus redemptions and terminations, excluding market performance. On a full-year basis, we expect that to be up significantly year-over-year.

Gabriel Dechaine:

Okay. Great. Now, as far as Canadian business goes, if I look at the Group Benefits in particular, it looked pretty solid this quarter—earnings up 19% year-over-year. I recall seeing some mention of morbidity gains. Are you able to quantify those, if at all?

David Harney:

Yes, we’re very pleased with performance this quarter in the Canada Group Benefits business. Fabrice, do you want to add a little bit of colour on the experience?

Fabrice Morin:

Yes. I think that’s absolutely right. The performance of our Group business is driven by strong morbidity performance this period, as we’ve seen in past periods, and the performance tends to persist over time, not necessarily one time, one quarter. We are very disciplined in the way we price this business. We’re very disciplined in the way we underwrite this business. I think our track record over a long period of time would show this, and we remain focused through cycle on providing a very good client and member experience and also being disciplined in the way we approach the business.

Gabriel Dechaine:

Yes. Yes. No. I get that, and I’d agree, but just wondering if there’s any—if this was a particularly strong quarter or there’s some seasonality that you might want to flag.

Fabrice Morin:

Well, it’s been stronger than other quarters. I wouldn’t point to any specific seasonality that relates to morbidity experience, and the positive experience factor is mainly long-term disability, morbidity.

Gabriel Dechaine:

Okay. Then on the other hand—the outlook for the business, and correct me if I'm wrong, but your market focus historically has been mid to smaller case sizes. On one hand, for driving profit growth, it's your underwriting capabilities, which you demonstrate over time, are quite strong, but then on the other hand, the top line is maybe facing a bit more of a challenging outlook because of slower employment and growth in Canada. I'm wondering if that's something that you're factoring into your outlook as you look at the 2026 budgeting or anything along those lines? That'd be, I think, interesting to hear about.

Fabrice Morin:

We're insuring many Canadian employees, so we're exposed to the Canadian economy. We're not seeing right now a significant headwind, at least in our current block. Our current block continues to grow with the economy, but we continue to watch the economic trends in Canada and we would be exposed to that. You may see it in our expected profit growth. We're also disciplined in the way we reflect experience into expected profit. We tend to be very cautious and conservative in the way we do this, and we're cautious and conservative on our pricing as well. You will see a slightly slower expected profit growth that would reflect these two factors, but we're not seeing reasons to worry, at least in our current results, and we continue to watch the outlook for employment and economic growth in Canada.

David Harney:

More broadly, as we plan for next year and budget for next year, we're firmly committed to the financial objectives we've set out. For Fabrice in Canada, our expectation is mid single digit growth, to do slightly better than that in Europe and CRS, and double-digit growth in the U.S., so no change in expectations from any of these segments.

Gabriel Dechaine:

All right. Well, thank you.

Operator:

The next question is from Alex Scott with Barclays. Please go ahead.

Alex Scott:

Hey, thanks for taking the question. I had one for you on Empower and just wanted to see what your thoughts are on in-plan annuities as an offering and 401(k)s. Do you see that as something that ends up building as an allocation? Is that a product that you'd potentially partner with somebody on or manufacture yourself? I'd just be interested in your views.

David Harney:
That's an area we're excited about. Obviously, it's an area we have a lot of expertise in our different segments, and I think as people transfer into retirement, we're going to see increasing demand for that product in the U.S. Others are experimenting with different offerings. That's something we have the expertise to add. We're probably likely to partner with somebody in the short term as a route and see what sort of demand is there for the product, and then if there is strong demand, we could potentially move into manufacturing it ourselves.

Edmund F. Murphy III:
I would just add, we have a partnership today with TIAA. I would say the demand's been somewhat tepid at this point, but clearly it is an emerging need. A lot of the surveys indicate that people want guaranteed income solutions, they want longevity insurance, and to David's point, we are looking at it within Empower. We'll take the same approach, open architecture, but we'll likely have our own solution. We'll underwrite the offering.

Alex Scott:
Got it. Okay. The other question I had is on Empower as well. The average AUM will be up a fair amount going into the back half of the year just because of what the market's done, and I appreciate that a little over half is fee-based, so not all of it indexes to that, but you've got a pretty solid tailwind for top line going into the back half of the year. I'm just interested in how you view that extra flexibility from an expense standpoint. Is that something you'd take advantage of to invest more back into the business or would it flow through more in the margin?

David Harney:
Yes, I think it will give us some flexibility. We want to continue to invest so we can improve the efficiency of the business, and there's AI digital innovation that can both improve the member experience and improve our own efficiency and continue to drive down participant costs. That's a win-win and an obvious invest area for us. Then I think the other thing we're learning about the business, the key to improving the rollover rate of retirement is to maximize the member experience through their

journey in saving for retirement. You see the things we're doing on the product expansion that play to that, continued investment in the brand plays to that. As we look to plan for next year, we want to try and create room for both of those investments in the Empower business, and the top line growth will give us some flexibility to do that.

Alex Scott:
Got it. Okay. Thank you.

Operator:
We have a follow-up question from Mario Mendonca with TD Securities. Please go ahead.

Mario Mendonca:
Thank you for taking this other question. Might be best for Jon, it could be. Over the years, I don't recall a time when Great-West Life was as focused on reducing leverage and buying back stock. Often, when I think about it, I think about the holding company just not being a regulated insurance company and differences between Great-West Life and some of the other lifecos. It appears to me that something's changed, so perhaps you could talk a little bit about what you're trying to solve for, in taking the leverage ratio down. Is the goal to get it down to 25% and the buybacks? What's changed that's sort of changed Great-West Life's strategy around capital?

Jon Nielsen:
Yes. Well, thanks for the question, Mario. We're going to be active in our management of capital going forward. It was underappreciated when I joined - just how capital-efficient this Company is. We've put out a lot more disclosures about the sources of those cash flows and the uses of those cash flows, and also complemented that with an outlook on capital generation being more than 80% of earnings. We think this is top-tier in terms of the sector, and we're continuing to push our businesses to become more capital-efficient, whether it's strategic decisions around—like what you saw this quarter around exiting the life market and CRS, or whether it's being disciplined in terms of our product underwriting and generating just every dollar of cash we can get and making the velocity of that cash as quick as possible. We're excited about that outlook and we're doing a lot of work to make sure that we continue to improve just how much we generate.

Then in terms of uses, as I mentioned, being more active. We're just kind of ensuring that we have a strong balance sheet for M&A. There's nothing imminent in terms of M&A. You've seen us take action as we roll forward quarter-by-quarter with buybacks. This quarter, we announced another $500 million. You should expect us to continue to be active quarter-by-quarter and looking at what's the M&A outlook, and if there isn't something imminent or if there's not something within a reasonable period of time, we'll look to buy back shares on an ongoing basis. It's just becoming more clear about just how strong our position is and using that as a leverage to grow the business over time. That's what I'd say about that, and you should consider this just to be BAU now for Great-West in terms of how we operate.

Mario Mendonca:
But nothing's changed? It's just that you, Jon, and David and the folks there at Great-West Life have decided this is a more urgent priority—or this is now a priority of the company, and perhaps previous management teams have focused on something else. Is that fair?

Jon Nielsen:
I wouldn't call it a change in management philosophy. I would say if you look at the evolution of the Company, the strategic positioning of our U.S. business has changed materially. We made disciplined capital allocations to get out of asset management and life insurance and reallocate into a growth business or Retirement segment. That business is now generating substantial cash flow. If you look back to the previous position, I wouldn't say it was a strong cash contributor. We had nice businesses, but not great businesses from a cash generation. At the same time, our other businesses are now growing to scale.

Mario, if you think back 10 years where our CRS business was, our European business was, they weren't anywhere near the scale they are now. I would say it was a benefit of the decisions that the management that came before us made strategically that puts us in this position now that we can harness it and really take it forward in a really positive way, and we're still—I don't want to give the position that we're changing our leverage ratio over time. We have a maturity, we're going to pay it down. We would still actively look to be around the 30% leverage ratio over time in the event that there are inorganic opportunities, and given that we have excess cash, there's no need to issue in the debt markets right now. It's just active management of a position that the prior generations of management endowed us to and we're going to be active in managing that very hard.

David Harney:

Yes, I think that's it exactly. It's a natural maturing of the business. We've repositioned to capital-light – that's over 60% of our earnings now forecast to grow to over 70% over the planning period. This sort of capital deployment priorities just fit perfectly with us.

Mario Mendonca:

That's clear. Thank you.

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 third quarter results are scheduled to be released after market close on Wednesday, November 5, with the earnings call starting at 9:00 AM Eastern Time the following day. Thank you again, and this concludes our call for today.

Operator:

This concludes the conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.