
SUN LIFE GLOBAL INVESTMENTS (CANADA) INC.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

for the financial year ended December 31, 2016

Sun Life Milestone 2025 Fund



Sun Life Milestone 2025 Fund

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. You can request a free copy of the annual financial statements by calling 1-877-344-1434, by sending an email to us at info@sunlifeglobalinvestments.com or by writing to us at Sun Life Global Investments (Canada) Inc., 150 King Street West, Toronto, Ontario, M5H 1J9. Our financial statements are available on our website at www.sunlifeglobalinvestments.com and on SEDAR at www.sedar.com. All of the financial information is calculated based on the pricing Net Asset Valuation for the investment fund, unless otherwise stated.

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The fundamental investment objective of Sun Life Milestone 2025 Fund (the "Fund") is to seek long-term capital appreciation and to pay, on its scheduled maturity date of June 30, 2025, an amount per unit equal to the greater of the following three values: (i) \$10 per unit (the net asset value per unit on the start date of the Fund), (ii) the highest month-end net asset value per unit during the period from the start date to the Maturity Date, or (iii) the net asset value per unit on the Maturity Date of the Fund (the "Guaranteed Value"). The Fund invests in an underlying fund that provides exposure to equity market indices in North America, Europe and the Far East through investments primarily in derivatives, as well as in fixed-income securities and cash equivalents. The Fund uses an asset allocation strategy to determine the balance among these assets. Further details about the Guaranteed Value can be found in the Fund's simplified prospectus.

The Fund's sub-advisor is Sun Life Assurance Company of Canada. The portfolio manager and sub-advisor manage the Fund by investing in sufficient zero-coupon federal or provincial government bonds in order to support the guaranteed value at the maturity date of the Fund and then allocating the remainder of the Fund's assets to global equities. The global equity exposure is obtained through an investment in units of Sun Life Milestone Global Equity Fund, a fund that is managed so that its regional exposures are within defined target ranges relative to the MSCI ACWI Index weightings. You may obtain specific information about the Sun Life Milestone Global Equity Fund in its Management Report of Fund Performance, which is available on our website at www.sunlifeglobalinvestments.com and on SEDAR at www.sedar.com.

Risk

There were no changes in the Fund's investment objective or strategy during the period which materially impacted the overall level of risk in the Fund. The risks associated with investing in the Fund remain as outlined in the Fund's Simplified Prospectus.

Results of Operations

During the period, the net asset value of the Fund increased from \$90.8 million to \$113.6 million. The increase in net asset value was due to positive net sales, partially offset by negative performance during the period. The Fund's per unit guarantee at maturity increased ending the period at \$13.3056.

During the period, the Fund returned -1.1% for Series A units. This result lagged the Fund's blended benchmark, the 80% FTSE TMX Canada Universe Bond, 20% MSCI ACWI Index-Local Currency, which returned 3.2%. Please refer to the 'Past Performance' section of this report for more details.

Low oil prices and slower economic growth kept yields on Canadian bonds depressed relative to U.S. bonds in the first quarter. The outlook for interest rates remained clouded with the Bank of Canada deciding not to raise rates. This decision followed the federal government's move to expand its deficit to stimulate the economy, and Sun Life Global Investments (Canada) Inc. (the "Manager") did not rule out another rate cut by the Bank of Canada if the economy continued to underperform.

Equities fell sharply in the opening days of the first quarter before bouncing back strongly. In the second quarter, Britain's decision to leave the European Union sent equity markets around the world into a tailspin. European markets felt the greatest pain, dropping almost 9% the day after the vote. U.S. equity markets also took a hit initially before rebounding a few days later. And with growing market uncertainty following in the wake of the U.K. vote, the U.S. Federal Reserve put off raising interest rates.

The raging forest fires that destroyed parts of Fort McMurray were the main story in Canada in the second quarter and had a dampening effect on the economy. But a surge in oil prices helped stabilize Canada's economy, giving the Bank of Canada some much needed breathing room.

The Canadian economy continued to perform poorly in the third quarter with the Bank of Canada holding the line on interest rates. Despite Canada's sluggish economic growth, the S&P/TSX Composite Index was one of the top performers among developed equity markets in 2016, finishing the year up 21.1% on a total return basis. International and emerging markets played catch up and were among the stronger markets.

Sun Life Milestone 2025 Fund

In the fourth quarter, yields spiked higher and equity markets rallied in many developed countries following President Donald Trump's promise to stimulate the U.S. economy by cutting taxes and increasing spending on defense and infrastructure. With Republicans in control of Congress, the Manager believes that much of the president's economic agenda may be implemented.

Prior to Trump's election the U.S. Federal Reserve raised interest rates by a quarter of a percent to 0.50% and hinted at more rate hikes to come in 2017. The combination of the U.S. Federal Reserve's hawkish stance and Trump's election led to one of the greatest spikes in bond yields in decades.

Recent Developments

If President Donald Trump is successful in implementing his pro-growth agenda, the Manager believes it could help U.S. equities. However, increased economic growth could also put upward pressure on U.S. interest rates. Canadian and U.S. bond yields may continue to move higher in 2017, which could result in negative total returns for bonds. Nonetheless, the Manager does not expect yields to move up by as much as the market in 2016.

Effective February 5, 2016, all Series E units were re-designated to Series A units, under the Front End Sales Charge option, of the same Fund. Please refer to the Fund's simplified prospectus for more details about the captioned change and for details about the Private Client Program.

Related Party Transactions

Sun Life Global Investments (Canada) Inc. (the "Manager") is the manager, trustee and portfolio manager of the Fund.

The Manager is responsible for the provision of all general management and administrative services required by the Fund in its day-to-day operations, including providing or arranging for the provision of investment advice, bookkeeping, recordkeeping and other administrative services for the Fund.

As trustee, the Manager holds legal title to the Fund's investments in trust for unitholders. For its services, the Manager receives a management fee that is calculated as a percentage of the average net asset value of the Fund. This fee is calculated daily and payable monthly.

As portfolio manager, the Manager is responsible for managing the investment portfolio of the Fund directly or through sub-advisors. The Manager has retained Sun Life Assurance Company of Canada, an affiliate, to act as a sub-advisor for the Fund.

The Manager is an indirect wholly owned subsidiary of Sun Life Financial Inc., but Sun Life Assurance Company of Canada is a direct wholly owned subsidiary.

Fund Administrative Expenses

The Manager pays certain of the operating expenses of each Fund (the "Administration Expenses") in return for a fixed administration fee paid to the Manager by each Fund ("Administration Fee"). The Administration Fee is based on the net asset value of each series of the Fund. The Administration Expenses include, but are not limited to, record keeper fees, accounting, audit and legal fees, bank and interest charges, safekeeping and custodial fees, taxes, administrative and systems costs, costs of reports to investors, prospectuses and other disclosure documents, regulatory filing fees (including those incurred by the Manager) and trustee fees for registered plans. The amount of this charge is disclosed as a fund administrative expense in the Fund's Statement of Comprehensive Income found in the annual financial statements (audited).

Each Fund also pays certain operating expenses directly (the "Fund Costs"). Fund Costs include: borrowing costs incurred by the Fund from time to time; costs in connection with portfolio transactions; fees and expenses payable to or in connection with the Fund's Independent Review Committee ("IRC"); taxes payable by the Fund; and the costs of complying with any new regulatory or legal requirement imposed on the Fund. Each Fund allocates Fund Costs proportionately among its series of units. The Fund Costs that are specific to a series of units are allocated to that series. These amounts are paid out of the assets attributed to each series of units of the Fund, which reduces the return you may receive.

Series Description

The Fund offers Series A units only. The date of creation for Series A units was October 1, 2010. Series A units are available to all investors.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund's financial performance from the date of inception to December 31, 2016.

Sun Life Milestone 2025 Fund

The Fund's Net Asset Value per Unit (\$) ⁽¹⁾⁽⁴⁾

Sun Life Milestone 2025 Fund – Series A

	2016	2015	2014	2013	2012
	(\$)	(\$)	(\$)	(\$)	(\$)
Net asset value, beginning of period	12.87	12.47	11.18	11.29	10.73
Increase (decrease) from operations:					
Total revenue	0.41	0.37	0.61	0.95	0.50
Total expenses	(0.28)	(0.28)	(0.26)	(0.24)	(0.25)
Realized gains (losses) for the period	0.01	0.15	–	0.09	0.03
Unrealized gains (losses) for the period	(0.31)	0.11	0.94	(0.92)	0.26
Total increase (decrease) from operations ⁽²⁾	(0.17)	0.35	1.29	(0.12)	0.54
Distributions:					
From income (excluding dividends)	(0.12)	(0.06)	(0.33)	(0.61)	(0.19)
From dividends	–	–	–	–	–
From capital gains	(0.03)	(0.11)	–	(0.07)	(0.01)
Return of capital	–	–	–	–	–
Total annual distributions ⁽³⁾	(0.15)	(0.17)	(0.33)	(0.68)	(0.20)
Net asset value, end of period	12.74	12.87	12.47	11.18	11.28

⁽¹⁾ This information is derived from the Fund's audited annual financial statements.

⁽²⁾ Net Assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

⁽³⁾ The Fund automatically reinvests distributions in additional units of the Fund. Immediately following the distribution, the number of outstanding units will be consolidated, so that the net asset value per unit after the distribution is the same as the net asset value per unit before the distribution.

⁽⁴⁾ Comparatives prior to 2013 are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Figures subsequent to 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS").

Ratios and Supplemental Data ⁽⁶⁾

Sun Life Milestone 2025 Fund – Series A

	2016	2015	2014	2013	2012
Total net asset value (\$) ⁽¹⁾	113,600,225	78,769,613	66,165,249	56,276,701	36,458,542
Number of units outstanding ⁽¹⁾	8,920,266	6,118,997	5,307,379	5,033,809	3,229,306
Management expense ratio (%) ⁽²⁾	2.16	2.16	2.16	2.17	2.21
Management expense ratio before waivers or absorption (%) ⁽²⁾	2.16	2.16	2.39	2.40	2.68
Trading expense ratio (%) ⁽³⁾	–	–	–	–	–
Portfolio turnover rate (%) ⁽⁴⁾⁽⁵⁾	18.03	49.15	56.35	11.08	11.40
Net asset value per unit (\$) ⁽¹⁾	12.74	12.87	12.47	11.18	11.29

⁽¹⁾ This information is provided as at December 31 of the period shown, as applicable.

⁽²⁾ Management expense ratio is based on total expenses (excluding broker commissions and other portfolio transaction costs) including the Fund's allocated percentage of Fund-on-Funds' expenses for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period. Prior to 2015, the Manager of the Fund waived some of its management fees and/or absorbed some expenses that would normally be charged to the Fund.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the period.

⁽⁴⁾ The Fund's portfolio turnover ratio indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover ratio of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover ratio in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high portfolio turnover rate and the performance of the Fund.

⁽⁵⁾ Percentages are annualized.

⁽⁶⁾ Comparatives prior to 2013 are prepared in accordance with Canadian GAAP. Figures subsequent to 2013 are prepared in accordance with IFRS.

Management Fees

The annual maximum management fee paid by the Fund is a percentage of the average daily net asset value of each series exclusive of any applicable taxes and operating expenses, which is accrued daily and is paid to the Manager monthly in arrears. Management fees pay for portfolio and investment advisory services, oversight of any service providers, marketing and promotional activities, arranging for the distribution and sale of securities of the Fund, general administration of fund operations and sales and trailing commissions paid to dealers. The management fee reduces over time based on the remaining years to the scheduled maturity date of the Fund.

Sun Life Milestone 2025 Fund

The percentages and major services paid for out of the management fees are set out below:

	As a Percentage of Management Fees				
	Maximum Annual Management Fee Rate – More than 5 years to maturity (%)	Maximum Annual Management Fee Rate – 5 to more than 1 years to maturity (%)	Maximum Annual Management Fee Rate – 1 year or less to maturity (%)	Dealer Compensation (%) ¹	General Administration, Investment Advice and Profit (%)
Series A Units	1.85	1.30	1.00	38	62

¹ Includes sales and trailing commissions.

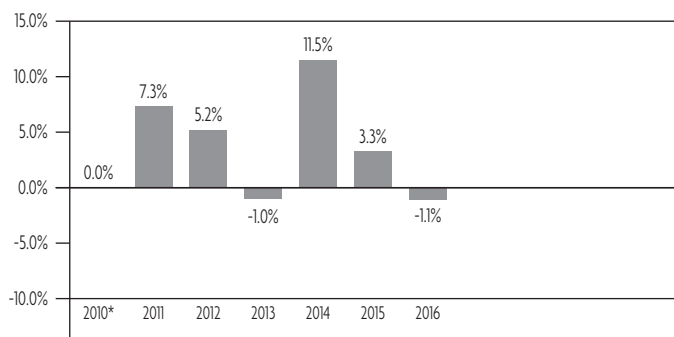
PAST PERFORMANCE

The indicated rates of return are the historical annualized and annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual Funds are not generally guaranteed; however the Sun Life Milestone Funds benefit from a guarantee described above. How a fund performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following bar chart shows the Fund's annual performance for the period shown. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each period.

Series A Units – Annual return for the period ended December 31, 2016



* for the period of October 1, 2010 to December 31, 2010.

Annual Compound Returns

The following table compares the historical annual compound total returns of Series A units of the Fund with the blended benchmark comprised of 80% bonds as represented by the FTSE TMX Canada Universe Bond Index and 20% equities as represented by the MSCI ACWI Local Currency Index.

The Series A units underperformed the blended benchmark since inception, over the past five years, over the past three years, and over the past year.

	1 year	3 Year	5 Year	10 Year	Performance Start Date ⁽¹⁾
Sun Life Milestone 2025 Fund – Series A	(1.1%)	4.4%	3.5%	N/A	3.9%
Blended Benchmark – New (80% FTSE TMX Canada Universe Bond; 20% MSCI ACWI Local Currency) ²	3.2%	5.1%	5.1%	N/A	5.3%
Blended Benchmark – Old (80% FTSE TMX Canada Universe Bond; 20% MSCI World Local Currency) ²	3.2%	5.2%	5.2%	N/A	5.4%
FTSE TMX Canada Universe Bond	1.7%	4.6%	3.2%	N/A	4.0%
MSCI ACWI Local Currency	9.0%	6.5%	11.9%	N/A	9.6%
MSCI World Local Currency	9.0%	6.9%	12.7%	N/A	10.5%

⁽¹⁾ The performance start date for Series A units was October 1, 2010.

⁽²⁾ The Fund's benchmark was changed from a blend of the FTSE TMX Canadian Universe Bond and the MSCI World Local Currency Index to a blend of the FTSE TMX Canadian Universe Bond and the MSCI ACWI Local Currency Index on July 1, 2015.

Sun Life Milestone 2025 Fund

SUMMARY OF INVESTMENT PORTFOLIO⁽¹⁾

as at December 31, 2016

Top 25 Investments

Holdings	Percentage of Net Asset Value of the Fund (%)
1 Government of Canada, Coupon Strip, Jun 01, 2025	26.3
2 Government of Canada, Coupon Strip, Dec 01, 2024	14.1
3 Sun Life Milestone Global Equity Fund, Series I ⁽²⁾	12.8
4 Province of British Columbia, Interest Strip, Jun 18, 2025	6.8
5 Province of British Columbia, Interest Strip, Jun 18, 2024	6.3
6 Province of Newfoundland and Labrador, Coupon Strip, Apr 17, 2025	4.9
7 Province of Ontario, Generic Coupon Strip, Jun 02, 2025	3.7
8 Province of Saskatchewan, Residual Strip, May 30, 2025	3.2
9 Province of Newfoundland and Labrador, Coupon Strip, Oct 17, 2024	2.7
10 New Brunswick Electric, Coupon Strip, Jun 03, 2025	2.6
11 Province of Newfoundland and Labrador, Coupon Strip, Apr 17, 2024	2.4
12 Province of British Columbia, Interest Strip, Dec 18, 2024	1.9
13 Ontario Electricity Financial Corp., Apr 11, 2025	1.5
14 Province of British Columbia, Principal Strip, Aug 23, 2024	1.1
15 New Brunswick Electric, Coupon Strip, Jun 03, 2024	0.9
16 Province of Saskatchewan, Coupon Strip, Mar 05, 2025	0.8
17 Government of Canada, Residual Strip, Jun 01, 2025	0.8
18 Province of Alberta, Coupon Strip, Jun 01, 2025	0.7
19 Province of Prince Edward Island, CDS BE Generic Interest, Jan 17, 2025	0.5
20 Province of Prince Edward Island, CDS BE Generic Interest, Jan 17, 2024	0.4
21 Province of Nova Scotia, Generic Strip, Jun 01, 2025	0.3
22 Province of Alberta, Coupon Strip, Dec 01, 2024	0.3
23 Province of Saskatchewan, Coupon Strip, Mar 05, 2024	0.3
24 Newfoundland and Labrador Hydro, Coupon Strip, Aug 27, 2024	0.3
25 New Brunswick Electric, Coupon Strip, Dec 03, 2024	0.3
	95.9
Total Net Asset Value (000's)	\$ 113,600

Asset Mix

	Percentage of Net Asset Value of the Fund (%)
Fixed Income	87.1
Equity ⁽⁴⁾	12.8
Cash and Cash Equivalents ⁽³⁾	0.1
	100.0

⁽¹⁾ All information is as at December 31, 2016. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. You may obtain quarterly updates to these holdings free of charge by calling us at 1-877-344-1434, visiting our website at www.sunlifeglobalinvestments.com or by sending an email to us at info@sunlifeglobalinvestments.com.

⁽²⁾ The Fund invests in another investment fund. The prospectus of the underlying investment fund and other information can be found on SEDAR at www.sedar.com.

⁽³⁾ Cash and Cash Equivalents, for the purpose of this chart, includes other assets less liabilities.

⁽⁴⁾ Equity for the purpose of this chart, includes investment in the Sun Life Milestone Global Equity Fund.

Forward-looking Statements

This management report of fund performance may contain forward-looking statements about the Fund, including its strategy, results of operations, performance and condition. Forward-looking statements include statements that are predictive in nature, or that depend upon or refer to future events or conditions. They are based on current beliefs, expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and various economic factors. Many factors could cause the Fund's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors could include, among other things, general economic, political and market factors, including interest and foreign exchange rates, business competition, technological changes, changes in government regulations or in tax laws. Although the forward-looking statements contained in this report are based upon what management currently believes to be reasonable assumptions, the Manager cannot assure current or prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", and similar expressions are intended to identify forward-looking statements.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Sun Life Milestone 2025 Fund

You can find more information about each Fund in our Annual Information Form, and each Fund's management report of fund performance and financial statements, once available. These documents are incorporated by reference into this document, which means that they legally form part of this document just as if they were printed as part of it.

For a free copy of these documents, call us toll-free at **1-877-344-1434** or ask your advisor. These documents and other information about the Funds, such as information circulars and material contracts, are also available at www.sunlifeglobalinvestments.com or www.sedar.com.

Sun Life Global Investments (Canada) Inc.
150 King Street West, Toronto, Ontario, M5H 1J9
Telephone: 1-877-344-1434 | Facsimile: 416-979-2859
info@sunlifeglobalinvestments.com
www.sunlifeglobalinvestments.com



I L L U M I N A T I N G