

Sun Life JPMorgan International Equity Fund

FUND COMMENTARY | Q3 2020

Opinions and commentary provided by JPMorgan Asset Management.

Market review

Global equities continued to rally in the third quarter on resilient corporate performance, especially from technology stocks and an accommodative shift in the Federal Reserve's long-term stance. However, volatility returned in September, with markets paring some of the gains as investors turned their attention to a possible second wave of COVID-19 infections, renewed lockdown measures and uncertainty about additional fiscal stimulus from the U.S. government. September's flash composite PMI number came in below expectations at 50.1, indicating the pace of the recovery would be difficult to maintain as rising infection rates restricted activity. Also during the quarter, European Union (EU) leaders agreed to a EUR 750 billion recovery fund, a sign of improving fiscal cooperation within the bloc during an emergency. Among equities, growth stocks persistently outperformed value, while emerging markets outperformed developed markets over the quarter.

Portfolio review

The portfolio outperformed its benchmark in the third quarter of 2020. At a sector level, stock selection in industrials and an underweight to energy contributed to performance, while an overweight to financials and stock selection in materials detracted. At the region level, stock selection in emerging markets and in the U.K. contributed to performance, while there were no regional detractors.

Outlook

With lower rates of morbidity and mortality, the portfolio manager believes the low-point in economic demand has likely passed and confidence should recover – albeit from dramatically low levels – implying a return to some form of normality remains in prospect.

Relative to sovereign bonds and cash, equities still offer attractive medium-term return, keeping in mind the nature of economic cycles is that short-term hits to profitability tend to presage longer recoveries. More volatility is likely this year as investors digest the uneven pace of the recovery, the resurgence of COVID-19 outbreaks across several parts of the world and an upcoming U.S. presidential election in November. It is yet to be seen how bond investors react to the steep rise in government debt around the world, and with downward pressure on retail prices, whether the threat of deflation returns.

Significant impacts on performance

CONTRIBUTORS

+ Kone OYJ

(1.8% portfolio weighting) The Finland-based engineering and service company contributed to returns. Investors were encouraged by Kone's continued market leadership within the consolidated elevator and escalator market, giving the company pricing power and strong profitability over a business cycle.

+ Taiwan Semiconductor Manufacturing Co.

(3.1% portfolio weighting) The Taiwanese semiconductor contract manufacturing and design company contributed to returns. Stock responded favorably to Intel's announcement that foundry manufacturing services will be a contingency plan for the production of its leading-edge microprocessor products.

DETRACTORS

— Legal & General Group

(1.5% portfolio weighting) The London-based financial services company detracted from returns. Investors were disappointed that the company kept the interim dividend flat year on year.

— Svenska Handelsbanken

(1.3% portfolio weighting) The Swedish bank providing universal banking services detracted from returns. In September, management announced it will restructure the domestic branch network, which spooked some investors.

Fund performance

COMPOUND RETURNS % ¹	SINCE INCEPTION ²	1 YEAR	Q3
Sun Life JPMorgan International Equity Fund - Series A	4.9	9.8	6.2
Sun Life JPMorgan International Equity Fund - Series F	6.1	11.1	6.5
MSCI ACWI ex U.S. Index	3.8	3.9	4.2

¹Returns for periods longer than one year are annualized. Data as of September 30, 2020.

²Partial calendar year. Returns are for the period from the fund's inception date of July 20, 2018 to December 31, 2018.

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