

# Sun Life MFS Global Growth Fund

## FUND COMMENTARY | Q4 2021

*Opinions and commentary provided by MFS Investment Management Canada Limited.*

---

### Portfolio review

During the fourth quarter, large growth stocks resumed their leadership position relative to the rest of the equity market as the MSCI AC World index surged to a +6.4% return over the period. Sector participation was more broad-based, with defensive sectors such as consumer staples and utilities performing well as investors flocked toward safety amid the prospect of higher inflation and the December surge in Omicron cases. As part of that safety trade, mega cap "tech" stocks once again outperformed as well. During this environment, our conservatively managed global growth portfolio outperformed the benchmark, despite not holding standout index performers Tesla and NVIDIA and a significant underweight position in Apple. Favorable stock selection across a range of sectors, including not holding poor performers Amazon, PayPal and Meta Platforms (formerly Facebook), drove the outperformance.

In a year like 2021, where improving fundamentals and earnings growth drove equity prices higher, it is not surprising that strong stock selection across seven different sectors of the Fund drove outperformance versus the benchmark. This is in sharp contrast to the prior year where relative performance struggled during a market that was primarily driven by multiple expansion. Many of the portfolio's top contributors to

relative performance in 2021 were stocks the team had added to on relative weakness in 2020, including IT consultant Accenture, health care services firm Icon, asset manager Charles Schwab, consumer credit data provider Equifax and insurance brokers AON and Marsh & McLennan. Conversely, underperformance from portfolio positions in ecommerce giant Alibaba, cosmetics maker Kose, athleisure apparel maker Adidas and payments names Fidelity National and Fiserv also weighed on our results. We view the issues weighing on these three positions as temporary and, in typical fashion, we added to all of them at increasingly attractive valuations during the year.

## Positioning And Outlook

Despite today's higher market valuations, the team continues to seek out and find great opportunities in steady growth compounders the team feels are reasonably valued as a result of the short-term focus of other investors.

## Key Transactions

- The Fund initiated one new position in flavors and seasonings brand McCormick this quarter. The team is attracted to McCormick's strong heritage in key brands such as Frank's Red Hot, Cholula Hot Sauce, French's Mustard and McCormick's dried spices as well as its dominant competitive positioning in good product categories. The seasoning aisle within the grocery store is space-constrained which makes McCormick's positioning very difficult to dislodge and the infrequent nature of this consumer purchase, along with limited private label competition, affords the company with pricing power. In addition, there are some modest secular growth trends in natural and healthy eating, more cooking from scratch and interest in diverse flavors. The stock has lagged the market and other consumer staples companies since 2019, resulting in multiple compression and a current valuation that is in line with other high quality staples despite the teams expectations for faster growth.
- In conjunction with the McCormick purchase this quarter, the team re-assessed the Fund's overall positioning in consumer staples, which resulted in a desire to own more of Church & Dwight, making it the Fund's largest position in this sector. The stock has lagged the market this year, leaving the valuation multiple attractive despite durable above-average growth potential. Part of the funding came from a trim to Nestle, which the team views as both lower growth and higher valuation compared to Church as well as a trim to Kweichow Moutai on strong outperformance and a higher multiple, and the elimination of Pernod Ricard, whose growth prospects did not compare favorably to the Fund's other staples holdings.

The other portfolio trades this quarter were also consistent with the teams process of adding to names on temporary weakness and trimming on strength.

- The team added at cheaper multiples to Adidas on the view that current sluggish sales in China will prove temporary
- The team added to Visa on the view that both the secular growth transition from cash to digital and the company's competitive advantages in payments will prove sustainable over the long term.
- The team added to Credicorp in Peru, their favorite Latin American bank, after political concerns and a severe COVID outbreak in Peru weighed on the shares.
- The Fund also continued to build up its relatively new Xcel position on near-term underperformance after the teams recent meeting with the CEO further reinforced their view of the thesis.

- The Fund trimmed insurance brokers AON and Marsh & McLennan, coatings company Sherwin Williams and asset manager Blackstone as strong outperformance pushed the multiples higher.

Looking forward, valuations in the large cap growth space generally appear expensive to the team on a variety of measures. For example, in the US market the Russell 1000 Growth index currently trades at a forward P/E multiple of 30.4x, which is the highest level the team has seen since the technology bubble of the late 1990's. Absolute returns have also been exceptionally strong lately. Furthermore, risks are abundant, including the potential for continued inflationary pressure, fading stimulus, higher taxes, trade wars, central bank policy mistakes, new Covid variants and geopolitical risks. As a result, the team believes investors should prepare for potential of lower returns ahead as it seems unlikely the spectacular returns of the last decade will be repeated.

The team's commitment to its investment process and philosophy remains unchanged. MFS maintains its long-term investment horizon and focus on owning durable growth compounders where the team has high confidence in the sustainability of profits over the long term. The team will continue to apply its buy and sell criteria consistently, and its analysis of company fundamentals (and relative valuations) will continue to determine how the portfolio is ultimately positioned. The Fund's objective is to add value for clients through a series of individual, bottom-up investment decisions, rather than through what MFS believes are difficult-to-predict macroeconomic events. Additionally, the Fund remains fully invested in the equity markets, since MFS believes it is challenging to predict equity market returns over the short term.

## Significant impacts on performance

### CONTRIBUTORS

#### + Accenture Plc

An overweight position in IT servicing firm Accenture (United States) benefited relative performance. The firm's stock price rose after the company reported solid fourth-quarter earnings results as forward sales guidance came in well ahead of consensus expectations. The company also saw strong customer demand in the fourth quarter, which further supported the stock.

#### + Church & Dwight Co Inc

The portfolio's overweight position in household, personal care, and specialty products manufacturer Church & Dwight (United States) aided relative performance. The stock price advanced as the company reported better-than-expected third-quarter earnings results and reaffirmed its full-year earnings guidance in the face of rising costs, which appeared to have lifted investor sentiment.

#### + Icon Plc

Holdings of clinical research provider ICON (Ireland) supported relative results. The stock price advanced following the company's acquisition of PRA Health Sciences, which gave the combined company the second largest scale in the industry, offering a broader service offering with a larger geographic footprint.

## DETRACTORS

### — Alibaba Group Holding Ltd

The portfolio's overweight position in online and mobile commerce company Alibaba Group Holding (China) hindered relative returns. The stock price declined after the company delivered weaker-than-expected financial results. Core growth in the company's online shopping platform Taobao was softer than already-lowered expectations, due to decreased market share, and losses in its investment areas were materially greater than anticipated.

### — HDFC Bank

The portfolio's position in banking firm HDFC Bank (India) detracted from relative returns. Although the company reported solid third-quarter financial results, driven by loan growth, the stock price declined despite the lack of any significant negative news.

### — Tesla Inc

Not owning shares of electric vehicle manufacturer Tesla (United States) dampened relative performance. The stock price rose after the company significantly beat market expectations for vehicle deliveries and showed that Tesla could overcome supply chain issues that have affected the whole auto industry

## Fund performance

COMPOUND RETURNS % <sup>1</sup>	SINCE INCEPTION <sup>2</sup>	10 YEAR	5 YEAR	3 YEAR	1 YEAR	Q4
Sun Life MFS Global Growth Fund - Series A	13.3	15.0	16.3	19.8	15.6	7.5
Sun Life MFS Global Growth Fund - Series F	14.5	16.2	17.6	21.2	17.0	7.8
MSCI All-Country World Index	12.6	14.3	13.0	17.3	17.5	6.4

<sup>1</sup>Returns for periods longer than one year are annualized. Data as of December 31, 2021.

<sup>2</sup>Partial calendar year. Returns are for the period from the fund's inception date of September 30, 2010 to December 31, 2010.

Views expressed are those of MFS Investment Management Canada Limited, sub-advisor to select Sun Life mutual funds for which SLGI Asset Management Inc. acts as portfolio manager. Views expressed regarding a particular company, security, industry or market sector should not be considered an indication of trading intent of any mutual funds managed by SLGI Asset Management Inc. These views are not to be considered as investment advice nor should they be considered a recommendation to buy or sell. This commentary is provided for information purposes only and is not intended to provide specific individual financial, investment, tax or legal advice. Information contained in this commentary has been compiled from sources believed to be reliable, but no representation or warranty, express or implied, is made with respect to its timeliness or accuracy.

This commentary may contain forward-looking statements about the economy and markets, their future performance, strategies or prospects or events and are subject to uncertainties that could cause actual results to differ materially from those expressed or implied in such statements. Forward-looking statements are not guarantees of future performance and are speculative in nature and cannot be relied upon.

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Investors should read the prospectus before investing. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated. The indicated rates of return are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or other optional charges or income taxes payable by any security holder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

While Series A and Series F securities have the same reference portfolio, any difference in performance between these series is due primarily to differences in management fees and operating fees. The management fee for Series A securities also includes the trailing commission, while Series F securities does not. Series A securities of the fund are available for purchase to all investors, while Series F securities are only available to investors in an eligible fee-based or wrap program with their registered dealer. Investors in Series F securities may pay a separate fee-based account fee that is negotiated with and payable to their registered dealer.

Sun Life Global Investments is a trade name of SLGI Asset Management Inc., Sun Life Assurance Company of Canada and Sun Life Financial Trust Inc.

SLGI Asset Management Inc. is the investment manager of the Sun Life Mutual Funds, Sun Life Granite Managed Solutions and Sun Life Private Investment Pools.

© SLGI Asset Management Inc. and its licensors, 2022. SLGI Asset Management Inc. and MFS Investment Management Canada Limited are members of the Sun Life group of companies. All rights reserved.