Sun Life Global Investments

Sun Life MFS International Value Fund

FUND COMMENTARY | Q4 2021

Opinions and commentary provided by MFS Investment Management Canada Limited.

Portfolio outlook and positioning

Global Equity markets resembled a roller coaster ride during the fourth quarter of 2021. Stocks advanced in October, spurred by the continuing global economic recovery, then fell sharply in November as Omicron spread around the world like wildfire. Equities turned positive again in December, as early indications suggested that Omicron seems to cause milder symptoms than prior variants of COVID. Meanwhile, investors continued to grapple with the crosswinds of higher inflation, supply-chain bottlenecks and prospects of tightening monetary policies.

The EAFE Index ended the tumultuous fourth quarter with a 2.4% gain. The best-performing sectors included utilities and materials, which rebounded from third quarter selloffs and consumer staples, as defensive business models were back in vogue in the volatile market environment. Laggards included communication services, due to Softbank's exposure to Alibaba as well as energy and financials, which underperformed on concerns about a slowdown in the economic recovery.

The Fund outperformed the EAFE benchmark for the period, fueled by strong stock picking and to a lesser extent, favorable sector allocation. Stock selection in technology, industrials and materials were the biggest contributors to relative performance, while stock selection in health care and our avoidance of utilities detracted from relative performance.

During 2021, the EAFE Index posted quarterly gains, resulting in an 10.3% advance for the year. Beneath those fairly benign top line numbers, however, there were abrupt changes in market leadership and stomach-churning volatility among the various sectors from quarter to quarter. Procyclical, value stocks —specifically in the energy and financials sectors —led the market with dramatic gains in the first quarter, only to become laggards in the fourth quarter, as investors became more cautious about their outlook.

The Fund ended the year modestly behind the index, on the heels of substantial outperformance in 2020 when the market rewarded the high quality, defensive type of companies that MFS favors. In 2021, the teams overweight positions and stock picking in consumer staples, along with an avoidance of energy and most financial stocks, weighed on relative returns. The Fund's investments in technology, materials and industrial were contributors to relative performance for the year.

Key Transactions

- Initiating a position in Swiss pharmaceutical company Roche Holding, which the team believes has a better-than-average R&D engine and culture within the industry. MFS likes the company's broad and diversified development pipeline and see the potential for an improvement in investor sentiment as the Avastin/Herceptin/Rituxan biosimilar cliff fades away. Also, the team hopes that Roche will prove defensive in most downside scenarios.
- The team added to South Korean tech giant Samsung Electronics. The team favors the company's leading-edge technology capabilities, its leadership in computer memory (DRAM), its high levels of investment in R&D and strong track record of capital allocation, supported by a conservative balance sheet, with 25% of the company's market cap in cash.
- The Fund started a position in Nice, an Israeli software company that sells a cloud-based customer experience solution. Nice's software enables companies to utilize a contact center provider's software, thereby purchasing only the technology they need, which reduces the need for internal IT support. We believe, the business has the potential to provide strong top line growth with healthy margins.
- The Fund added to German sportwear company Adidas, based on the teams favorable outlook for the sportswear industry, the company's advantages owing to its dominant market position and structural tailwind due to margin improvements from the transition to a direct-to-consumer sales strategy from selling through retailers.
- The Fund initiated a position in UK-based Ocado Group, which offers the leading end-to-end e-grocery tech solution. The company benefits from a large total addressable market, as e-grocery penetration remains very low and will likely only go higher. MFS was impressed by the company's performance in the UK, which they believe bodes well for their international expansion plans.
- The Fund reduced its position in US-based consumer products company Colgate Palmolive, based on the stock's relatively full valuation and the teams desire to trim the funds exposure to US-listed stocks.
- German beer maker Heineken was eliminated given a relatively full valuation.
- The Fund trimmed its investment in Cadence Design Systems, a US maker of electronic design software for creating new semiconductors, in light of strong outperformance as the stock price advanced by over 40% over the prior year.

- The Fund exited Descartes Systems, a Canadian tech company that produces software for supply chain management, after the stock price surged, reaching an extended valuation.
- The Fund reduced its holdings of French dairy products and water company Danone. Management has made limited progress on improving profit margins and expanding or enhancing the White Wave brands since the 2017 acquisition.

The International Value strategy remains overweight to Information Technology. The Fund owns computer software, systems and semiconductor companies that are dominant players in industry niches, with competitive advantages that MFS believes are supported by differentiated intellectual property. The portfolio is overweight Consumer Staples, where the team favors the brand name strength, global distribution networks, strong balance sheets and the ability to adapt to the digital environment across a number of consumer product, food and alcoholic beverage companies. The Fund is overweight Industrials; where it owns a number of businesses that are leaders in their market niches, emphasizing innovation to meet future customer needs. The portfolio's most significant underweight is Financials, as the team continues to avoid European and Japanese banks with complicated business models and over levered balance sheets. The Fund is underweight Health Care, on concerns about patent cliffs, the high cost of drug development and increasing government pressure on drug prices. The portfolio is underweight Consumer Discretionary because the team finds fewer businesses that meet their criteria for cash flow generation and sustainability over the long term.

.

Significant impacts on performance

CONTRIBUTORS

+ Cadence Design Systems Inc
  The portfolio's position in Cadence Design Systems (United States), a company that provides software for designing semiconductor chips, boosted relative performance. The company posted strong financial results, driven by broad-based strength across all products, particularly digital. The company also raised its 2021 guidance on all metrics on better visibility and continued robust demand.
+ Schneider Electric SA
  An overweight position in electrical distribution equipment manufacturer Schneider Electric (France) contributed to relative performance. The stock price advanced as the company reported better-than-expected organic sales growth during the third quarter, driven by strong performance in its energy management segment
+ Givaudan SA
  An overweight position in fragrance and flavour products manufacturer Givaudan (Switzerland) contributed to relative performance. The company's stock price advanced during the period, driven by strong like-for-like sales and improved momentum within its Taste & Wellbeing segment, along with a

greater-than-expected recovery within its Food Services segment. From a geographical standpoint, both Latin America and Europe appeared to have positively surprised investors with higher-than-expected growth

DETRACTORS

- Ito En Ltd
  Overweighting shares of beverage manufacturer ITO EN (Japan) hindered relative performance as the stock price declined over the reporting period. The company reported disappointing fourth-quarter operating profits that fell short of consensus estimates, driven by COVID-19 related weakness in its Tully's Coffee brand, supply chain challenges, and higher costs, notably overseas.
- Henkel KGaA
  An overweight position in chemical products company Henkel (Germany) held back relative results. The company reported disappointing margins during the quarter, led by continued volume pressure in its Adhesives segment stemming from lower auto productions, as well as weakness in its Beauty retail segment due to lower body care demand. Additionally, higher-than-expected raw materials cost inflation further weighed on the company's results.
- Kao Corp
  The portfolio's overweight position in household and industrial products manufacturer Kao (Japan) held back relative performance. The stock price declined as the company posted quarterly financial results that came in below market estimates due to weaker-than-expected operating profits and sales in domestic consumer products.

Sun Life Global Investments

Fund performance

COMPOUND RETURNS %[1]	SINCE INCEPTION[2]	10 YEAR	5 YEAR	3 YEAR	1 YEAR	Q4
Sun Life MFS International Value Fund - Series A	11.0	12.2	10.3	13.2	7.2	5.7
Sun Life MFS International Value Fund - Series F	12.3	13.5	11.5	14.5	8.5	6.1
MSCI EAFE Index	8.5	10.4	8.2	10.6	10.3	2.4

[1]Returns for periods longer than one year are annualized. Data as of December 31, 2021.
[2]Partial calendar year. Returns are for the period from the fund's inception date of October 1, 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.