Sun Life Low Volatility Global Equity Fund

FUND COMMENTARY | Q3 2020

Opinions and commentary provided by MFS Investment Management Canada Limited.

Market environment

In the third quarter of 2020, markets continued their swift recovery from the lows of March. The most volatile stocks led the way, making it especially difficult for the strategy to keep pace. The characteristics of outperforming stocks tended to be higher volatility, strong price momentum, and strong top-line growth. Companies with business models that proved to be pandemic/stay-at-home beneficiaries, mainly found within the consumer discretionary and information technology sectors, also outperformed.

Regional performance was narrow for the quarter overall, with the U.S. and emerging Asian markets outperforming significantly. Cyclical sectors dominated in the third quarter, led by consumer discretionary stocks, which continued to benefit from strength in online retailers. Defensives sectors, such as consumer staples, utilities and health care, lagged in the developing bifurcated cyclical rotation. Factor performance remained narrow and with a few exceptions, was led by growth, price momentum and quality.

There was notable rotation during the September selloff. Regionally, the U.S. market underperformed significantly, weighed down by a significant pullback in U.S. technology and media leaders, while Japan, Europe and emerging markets all outperformed the broader benchmark. On a sector basis, leadership shifted to more defensive sectors, with utilities, health care and consumer staples all outperforming. Factor performance also experienced a significant reversal, with the low volatility factor benefitting from a shift away from momentum and growth stocks.

Portfolio performance

The U.S. was the most significant detractor in the third quarter, relative to the MSCI ACWI. Information technology and consumer discretionary led the way in a high-volatility market. Japan was the second-worst country for relative contribution, driven by the communication services sector. Emerging markets was the best contributing region, driven by selection within Taiwan. From a sector perspective, selection within communication services and consumer discretionary detracted the most, while information technology selection (driven mainly by Taiwan) was the most additive.

An overweight to lower-volatility stocks detracted from relative performance over the quarter, as the most volatile stocks outperformed during the rally off the market bottom that began at the end of the first quarter. Value factors also continued their underperformance, but showed the beginning of a rebound toward the end of the quarter as high-flying technology sold off. Both quality and price momentum posted strong performance on the quarter.

Outlook

The current market environment, which is dominated by a concentrated group of mega-cap growth and momentum stocks, continues to challenge the Fund's investment process and the relative performance of the portfolio. The Fund's investment process, which consists of a diversified combination of fundamental factors and research processes, coupled with a risk-controlled portfolio construction process, is designed to outperform over a full market cycle. The historically fast rebound of equity markets off the bottom in March has been driven by historically more volatile sectors and companies, which is common for equity market rebounds, and is within the distribution of expected outcomes when exposed to low volatility.

The rapid selloff of many mega-cap growth stocks in September, coupled with the emerging leadership of industrials and materials stocks and strong performance of value factors, provided what the portfolio manager believes is a lens into relative positive performance when the market comes up for air. Although it is unclear what the catalyst for change will be, there are a number of events in progress and on the horizon that could drive improving market breadth and reduce stock and factor correlations.

Significant impact on performance

CONTRIBUTORS

+ Taiwan Semiconductor
  The portfolio's position in the semiconductor manufacturer contributed to relative returns. The company reported strong second quarter net income and provided third quarter guidance that exceeded expectations in anticipation of higher 5G penetration in the second half of the year.

+ Infosys
  Holding the technology consulting firm bolstered relative performance. The share price benefited from the acceleration in digital transformation of enterprises, demand for cloud-based solutions, automation, cost efficiency and consolidation. Infosys has delivered strong growth and execution and maintained strong deal pipeline.

DETRACTORS

– Tesla
  Not holding shares of the electric vehicle manufacturer weakened relative performance. The company's shares traded higher as management posted strong second quarter earnings, driven by better-than-expected revenue and margin results.

– KDDI Corp.
  The portfolio's overweight position in the telecommunications company detracted from relative performance. Although the company reported better-than-expected operating profit for the first quarter, its share price suffered due to pressure from Japan's new Prime Minister, Yoshihide Suga, on high-priced phone bills and from the announced merger of its largest competitor, NTT DoCoMo, with its parent company, NTT.

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Fund performance

COMPOUND RETURNS %[1]	SINCE INCEPTION[2]	3 YEAR	1 YEAR	Q3
Sun Life Low Volatility Global Equity Fund - Series A	6.7	6.8	1.2	3.3
Sun Life Low Volatility Global Equity Fund - Series F	7.9	8.0	2.4	3.6
MSCI AC World C$	4.7	9.5	11.4	6.0

[1]Returns for periods longer than one year are annualized. Data as of September 30, 2020.
[2]Partial calendar year. Returns are for the period from the fund's inception date of February 11, 2016 to December 31, 2016.

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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.

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