

Sun Life MFS Global Growth Fund

FUND COMMENTARY | Q1 2020

Opinions and commentary provided by MFS Investment Management Canada Limited.

Market review

In the first quarter of 2020, global equity markets fell 20.1% in local currency terms (as measured by the MSCI World Index). It was the worst quarter since the global financial crisis in 2008, as fears over the global economic impact of the novel coronavirus COVID-19 pandemic swept across markets. The speed and magnitude of the fall accelerated in March, with markets down 30% at one point – raising comparisons to similar historic collapses in 1987 and 1929. Volatility hit record levels, with one-day declines in the U.S. market reaching 10%, the biggest single-day drop since 1987, swiftly followed a few days later by a 11% one-day rise, the biggest one-day gain since 1933.

As of quarter end, most of the world's major economies were under some form of lockdown, social distancing or quarantine measures. This delivered a severe shock to consumer demand, global supply chains and everyday way of life. The speed of the monetary and fiscal response, which injected liquidity into seized credit markets and provided support for businesses and individuals, has been unprecedented. The U.S. federal government alone agreed to implement a \$2 trillion stimulus package with more to come. As well, the U.S. Federal Reserve cut interest rates twice to effectively zero, and launched a bond-buying program of almost unlimited scope. In Europe, the ECB announced a €750 billion package and a 'no-limits' commitment to defend the Eurozone. In the U.K., the Bank of England also cut interest rates twice to just 0.1%, its lowest level in history. In just a matter of days, the magnitude of stimulus eclipsed that of the global financial crisis.

The number of Americans filing unemployment claims jumped to a record 3.3 million in the last week of March, a ten-fold increase on the previous week, and then doubled to 6 million during the first week of April. Oil prices collapsed below \$25 as cooperation between Saudi-led OPEC and Russia broke down, causing a supply shock. At the same time, lock downs weakened global economies, leading to a demand shock.

Portfolio review

After delivering strong absolute and relative performance results in calendar 2019, the portfolio gave back some of its gains and underperformed during the first quarter of 2020 amid the global COVID-19-induced selloff. The Fund's high-quality focused, conservative growth style, has historically held up relatively well during periods of downside volatility. However, the Fund's continued lack of exposure to Amazon was the main reason the it underperformed. The portfolio manager continues to view Amazon as too expensive for the valuation-disciplined portfolio.

In addition, the Fund's performance was hurt by the avoidance of other technology-related stocks on valuation grounds. These names include: Netflix (streaming media content), Tencent (messaging and online gaming) and NVidia (chips used in gaming). These companies may be beneficiaries of global stay at home restrictions.

On the positive side, the portfolio was favourably exposed to a number of companies that benefited from the stay-at-home trend, including: Microsoft (cloud services and software), Alibaba (ecommerce platform and cloud services), Comcast (largest U.S. residential broadband provider), Electronic Arts (gaming platform), Visa and Mastercard (payments platforms benefiting

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from the shift to digital payments and ecommerce growth). The portfolio manager remains optimistic about the prospects for these companies going forward, and while many of them were relative outperformers in the quarter, their contribution to portfolio results was not enough to offset the Fund's lack of exposure to the previously mentioned benchmark names.

A secondary reason for the portfolio's underperformance was due to its ownership of names with exposure to the travel and retail space that were among the hardest hit during the global shutdown. An essential part of the portfolio manager's process when analyzing stocks is to consider downside risks by benchmarking a company's performance during prior periods of economic distress. In this downturn however, a company's past performance during a "normal" recession has been less relevant with many companies generating near-zero in revenues. This includes holdings in Marriott and TJX, as most of their hotels or brick-and-mortar stores are essentially closed without an e-commerce alternative to mitigate the impact.

Working closely with MFS' equity and fixed income teams to understand debt burdens, maturity timetables, covenants, revolvers and access to the commercial paper market, the portfolio manager expects these companies will survive the current crisis and be in a strong competitive position as weaker players struggle to survive. However, in order to respect the very real downside risks these companies face given the uncertain duration of the COVID-19 lockdown, the portfolio manager trimmed roughly one-third of the Fund's exposure from what were above-average-sized positions.

Despite the heightened volatility of stocks this year, there have been no material changes to the investment strategy or process. While the level of uncertainty remains high, the portfolio manager continues to focus on the durability of the portfolio's companies in the portfolio while maintaining a long-term perspective.

Outlook and summary

To state the obvious, the unique COVID-19-driven downturn makes it particularly difficult to have a strong view on depth, duration or the slope of the eventual recovery.

At one extreme, either effective global social distancing, or drug treatment breakthroughs, could enable a relatively quick return to near normal activity, with a potential stimulus tailwind. At the other extreme, perhaps the world needs to wait for a vaccine that is year or two away. Or the world enters into a multi-year period of on again off again social distancing, depending on regional virus outbreaks. Unfortunately, the less optimistic scenarios could result in economic damage that may not be easily or quickly repaired.

For companies competing in certain industries, the longer-term outlook has another layer of uncertainty (e.g. lodging, airports, bricks- and- mortar retail, entertainment studios, theme parks, energy and restaurants). Therefore, with a particularly cloudy view of what is ahead, MFS asks whether the market is sufficiently compensating for a shift into additional cyclical exposure.

For context, the MSCI AC World Growth Index is actually up 12.4% since the beginning of 2019. In fact, early 2019 was not particularly depressed, following a historically strong market run, while the market and economic consensus outlook was enthusiastic. So while down significantly from the February 2020 peak through the end of the quarter, on balance the portfolio manager believes the market appears to be attempting to look through to the recovery on the other side versus more fully reflecting the potential for uglier macro scenarios. As a result, when looking at individual stocks, the portfolio manager does not feel there is adequate compensation to take on the pro-cyclical risk in general.

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Significant impacts on performance

CONTRIBUTORS

- + Boeing Co.**
Not holding shares of the aerospace company aided performance, as the stock price declined when widespread travel restrictions across the globe ultimately led the company to suspend production.
- + Kweichow Moutai Co.**
The portfolio's overweight position in wine producer Kweichow Moutai (China) helped results as the company reported increased year-over-year revenue despite the ongoing market turbulence.
- + Roche Holding**
An overweight position in the Swiss diagnostics and pharmaceutical company contributed to performance. Shares traded higher after reporting second-half earnings above estimates. Management also raised its 2020 revenue and earnings guidance, which further supported the stock.

DETRACTORS

- Amazon.com**
Not owning shares of the internet retailer held back results. The company reported revenue above consensus estimates, driven by strong performance in its Amazon Web Services subsidiary, and stands to benefit as millions of people under lockdown turn to online deliveries.
- Marriott International**
An overweight position detracted from returns as the U.S. local and state stay-at-home orders resulted in near-zero revenue for lodging companies.
- HDFC Bank**
Although the company reported financial results that exceeded expectations, its share price suffered as global financial markets began to price in the impact of emergency interest rate cuts by central banks due to the COVID-19 pandemic.

See next page for **Fund performance** ►

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FUND COMMENTARY | Q1 2020

Fund performance

COMPOUND RETURNS % ¹	Since Inception ²	7 Year	5 Year	3 Year	1 Year	Q1
Sun Life MFS Global Growth Fund - Series A	10.9	11.4	7.7	8.6	0.3	-11.6
Sun Life MFS Global Growth Fund - Series F	12.1	12.7	8.9	9.8	1.5	-11.4
MSCI All-Country World Index	9.9	10.3	5.3	3.7	-5.4	-13.7

¹Returns for periods longer than one year are annualized. Data as of March 31, 2020.

²Partial calendar year. Returns are for the period from the fund's inception date of October 1, 2010 to December 31, 2010.

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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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