

# Sun Life Milestone Funds

Fund review - Q3 2013



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## Market review and outlook

Opinions as of October 21

After talking up the strength of the U.S. economy and giving strong indications about a September start to its proposed tapering program, the U.S. Federal Reserve decided to hold the line. The reason given was that though the economy was moving in the right direction, recent economic data was not as encouraging as they'd expected. Of course further evidence revealed that part of the Fed's reluctance was concern over the debt ceiling and a potential government shutdown, which in the end proved valid. As we now know, that situation has been resolved – at least for the time being.

For now, it means the “risk on” party continues. It's been good for equities, and it's also given a temporary reprieve to North American bond markets, as yields have come off. “Temporary” is the key word here, as tapering will eventually happen, along with rising interest rates. Taken together, it means a tougher time for bonds.

The U.S. economy continues to improve, and we continue to think highly of the long-term story there. Short term however, we expect to see other markets outperforming.

The Canadian economy really has only one thing going for it at the moment – the U.S. economy. However, that market enthusiasm was enough to help spark a rebound in the quarter, pushing the S&P/TSX Composite Index into positive territory for the year. Our view has not changed, in that we continue to worry about an overheated real estate market, high consumer debt levels, a weak commodity market, and a slowing economy. If the markets don't take this more fully into consideration now, it's only a matter of time.

The eurozone emerged out of recession (again), though not without difficulty. Growth challenges remain, but this is good news nonetheless. Of course, unemployment remains high in most of the troubled eurozone countries, but we did see the region's unemployment rates stabilize for the first time in a while. Austerity measures will continue to be painful in the short term, but there are signs that debt reduction programs are working. We still want to be cautious, but we are starting to look a little closer for opportunities.

Emerging markets came back to life in Q3 but remain one of the few equity regions in the red for the year. The fact that emerging markets have been lagging other equity markets only adds to our confidence going forward given current valuations. We continue to believe that emerging market equities provide a good opportunity for the long term.

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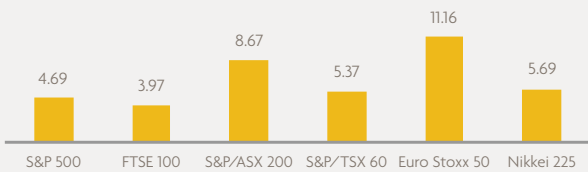
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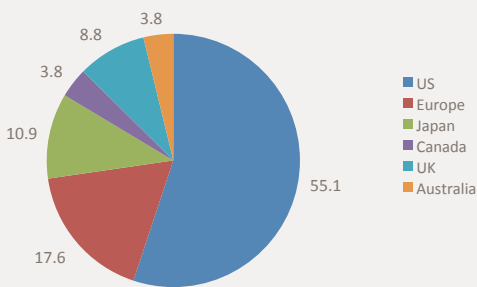
**Guaranteed maturity value (GMV) vs market value \$ per unit**

	GMV	Sept 30
Sun Life Milestone 2020 Fund	11.1913	10.7631
Sun Life Milestone 2025 Fund	11.7665	11.0506
Sun Life Milestone 2030 Fund	12.1759	11.4645
Sun Life Milestone 2035 Fund	12.1422	11.4973

**Q3 2013 global equity returns %**  
Price returns in local currency



**Sun Life Milestone Global Equity Fund**  
Geographic exposure %



**Allocation %**

	Equity	Bond
Sun Life Milestone 2020 Fund	11.5	88.5
Sun Life Milestone 2025 Fund	23.5	76.5
Sun Life Milestone 2030 Fund	35.2	64.8
Sun Life Milestone 2035 Fund	46.9	53.1

## Fund performance

Opinions and fund data as of September 30

The performance of each Sun Life Milestone Fund is driven by its asset allocation (bond/equity) mix, along with the performance of the bond component and the global equity component in each fund.

The Milestone Funds rose in the third quarter primarily on robust performance from the equity markets. The delay in the Fed’s plan to begin unwinding its quantitative easing program did have a modestly positive impact on the Canadian bond market, specifically at the short end of the yield curve.

Though relatively strong equity market performance was not enough to push the funds to new guaranteed maturity values, it did help narrow the spread between the net asset values and the GMVs. Current market conditions – particularly in the bond markets – highlight the protective features of the GMV. Investors who hold their Sun Life Milestone Fund units to maturity are guaranteed to receive the highest month-end unit value that was achieved over the life of the fund.

### Equities strong overall, but market faded after Fed

Equity exposure for each of the funds is obtained through investment in units of the Sun Life Milestone Global Equity Fund.

The Sun Life Milestone Global Equity Fund rose 6.97% in the period, beating its benchmark (MSCI World Index, total return local currency) by 57 basis points.

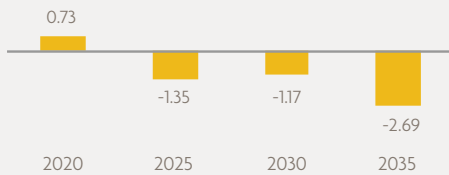
As is typically the case, the U.S. was the key performance driver due to the fund’s 55.1% weighting to the S&P 500. However – in a reversal from the overall weak performance in most of the regional markets in Q2 – all components represented in the Global Equity Fund were positive in Q3. Europe, represented by the Euro Stoxx 50, was a particular standout.

Enhanced market exposure to futures contracts was also positive. Enhanced market exposure is defined as the total market exposure from futures contracts held in the Sun Life Milestone Global Equity Fund divided by total net assets of the fund.

### Capitalizing on low-cost protection

We continue to look for opportunities to insulate the Global Equity Fund from downside risks, and rallies such as the one we had in Q3 tend to present such opportunities. We purchased additional option protection as put prices became more attractive.

**Q3 Govt Canada strip bond returns %**  
Maturing June 1 of respective year



**Bonds: dangerous curves ahead**

The road for bond investors has grown a little more foggy with the Fed's tapering delay, making it all the more treacherous.

We consider the pullback in yields as nothing more than a short-term reprieve. Make no mistake: the end of quantitative easing is coming, and with it, rising bond yields.

We'd expected this pullback, just not exactly in this way. Our prediction for an upward grind in yields remains firmly in place.

As one would likely anticipate, strength in the strip bond component of the funds was driven by gains at the short end of the curve, while securities with later maturity dates saw declines.

Asset allocation in the Sun Life Milestone Funds will continue to be driven by Government of Canada bond yields of maturities similar to the maturity date of each fund.

Compound annual returns % (Series A)	Q3 <sup>1</sup>	YTD <sup>1</sup>	1YR	3YR	SI <sup>2</sup>
Sun Life Milestone 2020 Fund	0.73	-0.84	-0.92	2.48	2.48
Sun Life Milestone 2025 Fund	0.20	-2.12	-1.86	3.39	3.39
Sun Life Milestone 2030 Fund	0.87	-1.15	-0.58	4.66	4.66
Sun Life Milestone 2035 Fund	1.08	0.11	0.74	4.76	4.76

Compound annual returns % (Series I)	Q3 <sup>1</sup>	YTD <sup>1</sup>	1YR	3YR	5YR	SI <sup>2</sup>
Sun Life Milestone Global Equity Fund	6.97	22.13	27.00	12.49	-	12.49
Benchmark <sup>3</sup>	6.40	18.85	22.34	12.07	-	12.07

<sup>1</sup> Simple returns

<sup>2</sup> Since inception. Fund inception October 1, 2010

<sup>3</sup> MSCI World Index (total return local currency)

Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Please read the prospectus before investing. 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 securityholder that would have reduced returns. Mutual fund values change frequently and past performance may not be repeated. Mutual funds are not generally guaranteed, although the Sun Life Milestone Funds benefit from the guarantee described below.

We have structured each Sun Life Milestone Fund so that it will have sufficient assets to pay the Guaranteed Value per unit on its respective maturity date. If the net asset value per unit on the maturity date of a Sun Life Milestone Fund is less than the Guaranteed Value per unit, then Sun Life Assurance Company of Canada, as sub-advisor to the Sun Life Milestone Funds, (“Sun Life”, or the “guarantor”) has agreed to pay the shortfall to the Sun Life Milestone Fund. Any shortfall payment is subject to the financial health and creditworthiness of Sun Life. The respective maturity dates for the Sun Life Milestone Funds is June 30 of the year in the corresponding fund’s name. The maturity date for a Sun Life Milestone Fund may be accelerated in certain circumstances, in which case an accelerated Guaranteed Value will be calculated. In such a case, the applicable Sun Life Milestone Fund will pay the greater of the net asset value per unit on the accelerated maturity date and the net present value per unit of the Guaranteed Value. If you redeem your securities of the Sun Life Milestone Funds prior to their respective maturity dates, your redemption will be processed at the current net asset value per security, less any applicable redemption fees, and you will not benefit from the Guaranteed Value at maturity. Additional information, including specific risks associated with the Sun Life Milestone Funds, can be found in the prospectus.

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