
SUN LIFE GLOBAL INVESTMENTS (CANADA) INC.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

for the financial year ended December 31, 2016

Sun Life BlackRock Canadian Universe Bond Fund



ILLUMINATING



Sun Life BlackRock Canadian Universe Bond Fund

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. You can request a free copy of the annual financial statements by calling 1-877-344-1434, by sending an email to us at info@sunlifegeglobalinvestments.com or by writing to us at Sun Life Global Investments (Canada) Inc., 150 King Street West, Toronto, Ontario, M5H 1J9. Our financial statements are available on our website at www.sunlifegeglobalinvestments.com and on SEDAR at www.sedar.com. All of the financial information is calculated based on the pricing Net Asset Valuation for the investment fund, unless otherwise stated.

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objective and Strategies

The fundamental investment objective of Sun Life BlackRock Canadian Universe Bond Fund (the "Fund") is to provide income by replicating, to the extent possible, the performance, net of fees, of a broad and recognized Canadian bond market index (the "Index"). The fund invests directly in fixed income securities included in the Index and/or may achieve indirect exposure to some or all of the Index by investing in exchange-traded funds, mutual funds or derivatives that are correlated to the performance of the Index.

The Fund's sub-advisor is BlackRock Asset Management Canada Limited (the "sub-advisor"). The sub-advisor invests the Fund directly in fixed income securities included in the Index and/or may achieve indirect exposure to some or all of the Index by investing in exchange-traded funds, mutual funds or derivatives that are correlated to the performance of the Index. A passive investment strategy is followed and the bonds selected for inclusion in the portfolio will have aggregate investment characteristics such as sector, credit quality, yield and term to maturity similar to those of the bonds comprising the Index.

Risk

There were no changes in the Fund's investment objective or strategy during the period which materially impacted the overall level of risk in the Fund. The risks associated with investing in the Fund remain as outlined in the Fund's Simplified Prospectus.

Results of Operations

During the period, the net asset value of the Fund decreased from \$890.0 million to \$879.5 million. The decrease in net asset value was due to net redemptions, partially offset by positive performance in the period.

During the period, the Fund returned 1.7% for Series I units. This result was in line with the Fund's benchmark, the FTSE TMX Canada Universe Bond, which returned 1.7%. Please refer to the 'Past Performance' section of this report for more details.

For the first half of the period, yields on Canada 10-year benchmark bonds had fallen by nearly 40 basis points ("bps"); 10-year Treasury yields had slipped by more than 70 bps. Furthermore, a remarkable 70% of developed-country government bonds yielded less than 1%, with a third of these securities yielding less than zero.

Towards the end of the year, short term yields stayed anchored, long term yields rose materially following the lead of the U.S. yield curve. Corporate bonds outperformed both Canada and Provincial bonds, supported by further spread tightening as well as their incremental yield advantage.

Recent Developments

Driven by a lack of growth levers, restrained inflation, and entrenched easy monetary policies, it was clear at the beginning of period that bond yields would be under pressure. Market shocks through the first half of the period only intensified that pressure. Early in the first quarter, concerns about growth and potential global recession drove a widespread selloff in equity markets and a flight to safe-haven bonds. More recently, the U.K.'s vote in June to leave the European Union ("Brexit") surprised and scared investors, who fled to quality assets – and caused a further decline in yield.

Speculation over the U.S. Federal Reserve rate rise and the U.S. presidential elections dominated markets in the fourth quarter.

The U.S. Federal Reserve raised its benchmark interest rate by 25 bps at the December meeting. Although the raise was anticipated, the tone was more hawkish, signaling towards higher interest rates than expected with the U.S. central bank raising its forecast for the number of further rate increases in 2017 from two to three. Global bond yields sold off in the wake of the surprise U.S. election result and expectations of a reflationary environment as the U.S. shifts from monetary easing to fiscal expansion. The Canadian yield curve steepened, with 10-year yields rising 72 bps while 2-year yields increased by 22 bps. Credit spreads continued their tightening trend as markets were buoyed by the prospect of lighter regulation and fiscal stimulus in the U.S. The Organization of the Petroleum Exporting Countries ("OPEC") agreement to curb oil production also supported credit spreads.

Sun Life BlackRock Canadian Universe Bond Fund

Related Party Transactions

Sun Life Global Investments (Canada) Inc. (the “Manager”) is the manager, trustee and portfolio manager of the Fund.

As manager, the Manager is responsible for the provision of all general management and administrative services required by the Fund in its day-to-day operations, including providing or arranging for the provision of investment advice, bookkeeping, recordkeeping and other administrative services for the Fund.

As trustee, the Manager holds legal title to the Fund’s investments in trust for unitholders. For its services, the Manager receives a management fee that is calculated as a percentage of the average net asset value of the Fund. This fee is calculated daily and payable monthly.

As portfolio manager, the Manager is responsible for managing the investment portfolio of the Fund directly or through sub-advisors. The Manager has retained BlackRock Asset Management Canada Limited to act as a sub-advisor for the Fund.

The Manager is an indirect wholly owned subsidiary of Sun Life Financial Inc.

During the year, the Manager relied on the approval of the Fund’s Independent Review Committee (the “IRC”) to enable the Fund to purchase equity securities and non-exchange traded debt securities of Sun Life Financial Inc. (“SLF”), the ultimate parent of the Manager. In accordance with the IRC’s approval, before the Fund purchases debt securities of SLF, the Manager is required to ensure that the investment decision (i) is made free from any influence of SLF and does not take into account any consideration relevant to SLF; (ii) represents the business judgment of the Manager uninfluenced by considerations other than the best interests of the Fund; (iii) is in compliance with the Manager’s written policies and procedures relating to the transaction; and (iv) achieves a fair and reasonable result for the Fund.

Fund Administrative Expenses

The Manager pays certain of the operating expenses of each Fund (the “Administration Expenses”) in return for a fixed administration fee paid to the Manager by each Fund (“Administration Fee”). The Administration Fee is based on the net asset value of each series of the Fund. The Administration Expenses include, but are not limited to, record keeper fees, accounting, audit and legal fees, bank and interest charges, safekeeping and custodial fees, taxes, administrative and systems costs, costs of reports to investors, prospectuses and other disclosure documents, regulatory filing fees (including those incurred by the Manager) and trustee fees for registered plans. The amount of this charge is disclosed as a fund administrative expense in the Fund’s Statement of Comprehensive Income found in the annual financial statements (audited).

Each Fund also pays certain operating expenses directly (the “Fund Costs”). Fund Costs include: borrowing costs incurred by the Fund from time to time; costs in connection with portfolio transactions; fees and expenses payable to or in connection with the Fund’s Independent Review Committee (“IRC”); taxes payable by the Fund; and the costs of complying with any new regulatory or legal requirement imposed on the Fund. Each Fund allocates Fund Costs proportionately among its series of units. The Fund Costs that are specific to a series of units are allocated to that series. These amounts are paid out of the assets attributed to each series of units of the Fund, which reduces the return you may receive.

Series Description

The Fund offers Series I units only. The date of creation for Series I was April 15, 2011. Series I units are special purpose securities that are currently only available to other mutual funds and eligible institutional investors. Series I units are not sold to the general public. Each Series I investor negotiates its own management and advisory fee that is paid directly to the Manager.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help you understand the Fund’s financial performance from the date of inception to December 31, 2016.

The Fund’s Net Asset Value per Unit (\$) ⁽¹⁾⁽⁴⁾

Sun Life BlackRock Canadian Universe Bond Fund – Series I

	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Net asset value, beginning of period	10.75	10.73	10.20	10.69	10.69
Increase (decrease) from operations:					
Total revenue	0.32	0.34	0.35	0.36	0.39
Total expenses	–	–	–	–	–
Realized gains (losses) for the period	0.07	0.03	(0.01)	(0.04)	0.03
Unrealized gains (losses) for the period	(0.16)	(0.10)	0.53	(0.45)	(0.01)
Total increase (decrease) from operations⁽²⁾	0.23	0.27	0.87	(0.13)	0.41
Distributions:					
From income (excluding dividends)	0.32	(0.33)	(0.34)	(0.36)	(0.37)
From dividends	–	–	–	–	–
From capital gains	0.07	(0.02)	–	–	(0.02)
Return of capital	0.02	–	–	–	–
Total annual distributions⁽³⁾	0.41	(0.35)	(0.34)	(0.36)	(0.39)
Net asset value, end of period	10.53	10.75	10.73	10.20	10.69

⁽¹⁾ This information is derived from the Fund’s audited annual financial statements.

Sun Life BlackRock Canadian Universe Bond Fund

- ⁽²⁾ Net Assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.
- ⁽³⁾ Distributions were paid in cash, reinvested in additional units of the Fund, or both.
- ⁽⁴⁾ Comparatives prior to 2013 are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Figures subsequent to 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS").

Ratios and Supplemental Data⁽⁶⁾

Sun Life BlackRock Canadian Universe Bond Fund – Series I

	2016	2015	2014	2013	2012
Total net asset value (\$) ⁽¹⁾	879,537,604	890,009,882	484,870,926	239,489,814	209,351,034
Number of units outstanding ⁽¹⁾	83,548,055	82,774,061	45,168,754	23,486,236	19,592,984
Management expense ratio (%) ⁽²⁾	–	–	–	–	–
Management expense ratio before waivers or absorption (%) ⁽²⁾	–	–	0.03	0.04	0.08
Trading expense ratio (%) ⁽³⁾	–	–	–	–	–
Portfolio turnover rate (%) ⁽⁴⁾⁽⁵⁾	67.89	43.61	13.70	24.82	34.07
Net asset value per unit (\$) ⁽¹⁾	10.53	10.75	10.73	10.20	10.69

⁽¹⁾ This information is provided as at December 31 of the period shown, as applicable.

⁽²⁾ Management expense ratio is based on total expenses (excluding broker commissions and other portfolio transaction costs) for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period. Prior to 2015, the Manager of the Fund waived some of its management fees and/or absorbed some expenses that would normally be charged to the Fund.

⁽³⁾ The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the period.

⁽⁴⁾ The Fund's portfolio turnover ratio indicates how actively the Fund's portfolio manager manages its portfolio investments. A portfolio turnover ratio of 100% is equivalent to the Fund buying and selling all of the securities in its portfolio once in the course of the year. The higher a Fund's portfolio turnover ratio in a year, the greater the trading costs payable by the Fund in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high portfolio turnover rate and the performance of the Fund.

⁽⁵⁾ Percentages are annualized.

⁽⁶⁾ Comparatives prior to 2013 are prepared in accordance with Canadian GAAP. Figures subsequent to 2013 are prepared in accordance with IFRS.

Management Fees

There is no management fee charged to the Fund.

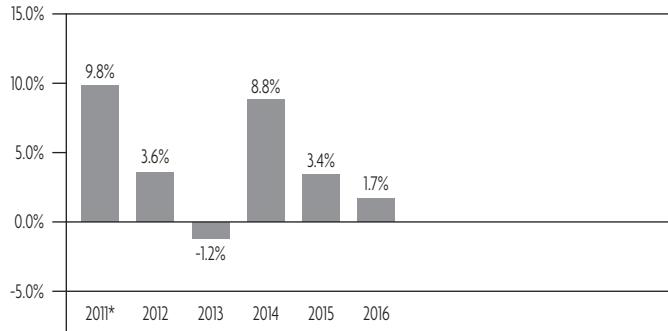
PAST PERFORMANCE

The indicated rates of return are the historical annualized and annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed. How a fund performed in the past does not necessarily indicate how it will perform in the future.

Year-by-Year Returns

The following bar chart shows the Fund's annual performance for the period shown. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

Series I Units – Annual return for the period ended December 31, 2016



* for the period of April 15, 2011 to December 31, 2011.

Annual Compound Returns

The following table compares the historical annual compound total returns of Series I units of the Fund with the FTSE TMX Canada Universe Bond Index.

The FTSE TMX Canada Universe Bond Index is designed to be a broad measure of the Canadian investment-grade fixed income market.

The Series I units performed in line with the benchmark since inception, over the past five years, over the past three years and over the past year.

	Performance				
	1 Year	3 Year	5 Year	10 Year	Start Date ⁽¹⁾
Sun Life BlackRock Canadian Universe Bond – Series I	1.7%	4.6%	3.2%	N/A	4.5%
FTSE TMX Canada Universe Bond Index	1.7%	4.6%	3.2%	N/A	4.5%

⁽¹⁾ The performance start date for Series I units was April 15, 2011.

Sun Life BlackRock Canadian Universe Bond Fund

SUMMARY OF INVESTMENT PORTFOLIO⁽¹⁾

as at December 31, 2016

Top 25 Investments

Holdings	Percentage of Net Asset Value of the Fund (%)
1 Canadian Government Bond, 4.00%, Jun 01, 2041	1.2
2 Canadian Government Bond, 3.75%, Jun 01, 2019	1.2
3 Canadian Government Bond, 5.00%, Jun 01, 2037	1.1
4 Canadian Government Bond, 3.50%, Dec 01, 2045	1.1
5 Canadian Government Bond, 5.75%, Jun 01, 2033	1.0
6 Canadian Government Bond, 1.25%, Feb 01, 2018	1.0
7 Province of Ontario, 3.45%, Jun 02, 2045	1.0
8 Canadian Government Bond, 1.75%, Sep 01, 2019	0.9
9 Province of Ontario, 2.60%, Jun 02, 2025	0.9
10 Canadian Government Bond, 1.50%, Mar 01, 2020	0.9
11 Province of Ontario, 2.90%, Dec 02, 2046	0.9
12 Province of Ontario, 3.15%, Jun 02, 2022	0.9
13 Canadian Government Bond, 0.50%, Aug 01, 2018	0.9
14 Canadian Government Bond, 3.50%, Jun 01, 2020	0.9
15 Province of Ontario, 2.85%, Jun 02, 2023	0.9
16 Canadian Government Bond, 0.50%, Nov 01, 2018	0.9
17 Canadian Government Bond, 0.25%, May 01, 2018	0.8
18 Canadian Government Bond, 0.75%, Sep 01, 2021	0.8
19 Province of Ontario, 4.20%, Jun 02, 2020	0.8
20 Province of Ontario, 3.50%, Jun 02, 2024	0.8
21 Canadian Government Bond, 2.50%, Jun 01, 2024	0.8
22 Canadian Government Bond, 2.25%, Jun 01, 2025	0.8
23 Canadian Government Bond, 3.25%, Jun 01, 2021	0.8
24 Canadian Government Bond, 5.75%, Jun 01, 2029	0.8
25 Canadian Government Bond, 1.50%, Jun 01, 2023	0.7
	22.8
Total Net Asset Value (000's)	\$ 879,538

Sector Allocation

	Percentage of Net Asset Value of the Fund (%)
Canadian Federal Government Bond	34.9
Canadian Provincial Government Bond	31.8
Canadian Corporate Bond	30.5
Canadian Municipal Government Bond	1.7
Cash and Cash Equivalents ⁽²⁾	0.7
International Corporate Bond	0.4
	100.0

⁽¹⁾ All information is as at December 31, 2016. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. You may obtain quarterly updates to these holdings free of charge by calling us at 1-877-344-1434, visiting our website at www.sunlifeglobalinvestments.com or by sending an email to us at info@sunlifeglobalinvestments.com.

⁽²⁾ Cash and Cash Equivalents, for the purpose of this chart, includes other assets less liabilities.

Forward-Looking Statements

This management report of fund performance may contain forward-looking statements about the Fund, including its strategy, results of operations, performance and condition. Forward-looking statements include statements that are predictive in nature, or that depend upon or refer to future events or conditions. They are based on current beliefs, expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Fund and various economic factors. Many factors could cause the Fund's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors could include, among other things, general economic, political and market factors, including interest and foreign exchange rates, business competition, technological changes, changes in government regulations or in tax laws. Although the forward-looking statements contained in this report are based upon what management currently believes to be reasonable assumptions, the Manager cannot assure current or prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", and similar expressions are intended to identify forward-looking statements.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

Sun Life BlackRock Canadian Universe Bond Fund

You can find more information about each Fund in our Annual Information Form, and each Fund's management report of fund performance and financial statements, once available. These documents are incorporated by reference into this document, which means that they legally form part of this document just as if they were printed as part of it.

For a free copy of these documents, call us toll-free at **1-877-344-1434** or ask your advisor. These documents and other information about the Funds, such as information circulars and material contracts, are also available at www.sunlifeglobalinvestments.com or www.sedar.com.

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