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# SUN LIFE GLOBAL INVESTMENTS (CANADA) INC.

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## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

for the financial year ended December 31, 2016

Sun Life MFS Monthly Income Fund



# Sun Life MFS Monthly Income 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@sunlifeglobalinvestments.com](mailto:info@sunlifeglobalinvestments.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.sunlifeglobalinvestments.com](http://www.sunlifeglobalinvestments.com) and on SEDAR at [www.sedar.com](http://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 MFS Monthly Income Fund (the "Fund") is to seek to provide a consistent level of regular income with capital appreciation as a secondary objective over the long term, by investing primarily in income producing equity and debt securities.

The Fund's sub-advisor is MFS Investment Management Canada Limited (the "sub-advisor"). In pursuing the Fund's investment objectives, the sub-advisor invests in a combination of income-generating equity securities and debt instruments with no more than 70% of the Fund's portfolio in Canadian securities and at least 30% of the Fund's portfolio in non-Canadian securities to provide diversification. In respect of equity securities, may invest in dividend or income paying securities, including royalty trust units, real estate investment trust units and limited partnership units and other exchange-listed participating securities, or warrants on dividend or income paying securities. In respect of debt instruments, uses a combination of bottom-up credit research and top-down macro analysis in constructing a diversified fixed income portfolio. Will primarily invest in debt instruments rated investment grade but may also invest in non-investment grade debt instruments.

### 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 increased from \$15.3 million to \$20.4 million. The increase in net asset value was due to positive net sales, as well as positive performance during the period.

During the period, the Fund returned 10.1% for Series A units. This result lagged the Fund's benchmark (50% S&P/TSX Capped Composite, 50% FTSE TMX Canada Universe Bond),

which returned 11.0%. The performance returns for other series of this Fund are similar to those of Series A except for differences in expense structures. Please refer to the 'Past Performance' section of this report for performance of each series.

Within the equity portion of the Fund, weak stock selection in the Energy sector dampened performance relative to the S&P/TSX Capped Composite Index. Most notably, holdings of independent petroleum products company Marathon Petroleum and natural gas company EnCana dampened relative results.

An underweight position and weak stock selection in the Materials sector also weakened relative performance. Within this sector, the timing of the Fund's ownership in shares of gold producer Barrick Gold and mineral exploration and development company Tahoe Resources hurt relative performance. Not owning shares of strong-performing diversified mining company Teck Resources further hurt relative performance.

Elsewhere, the Fund's positions in utility services provider ENGIE (France), and the timing of ownership of both telecommunications networking firm Telecom Italia (Italy) and investment management and banking firm UBS (Switzerland) detracted from relative returns. The Fund's overweight position in automotive systems manufacturer Magna International and timing of ownership in airline company Air Canada further weakened relative performance.

During the period, the Fund's currency exposure, resulting primarily from the Fund's exposures to holdings of securities denominated in foreign currencies, was another detractor from relative performance.

Within the Fund's fixed income segment, bond selection within Financials detracted from relative performance, particularly the Fund's exposure U.S. non-bank Financials. An underweight exposure to Provincials also detracted from relative performance as the sector outperformed the broader market.

Within the equity portion of the Fund, an underweight position in the poor-performing Healthcare sector benefited relative performance. The timing of the Fund's underweight position in pharmaceutical company Valeant Pharmaceuticals was a notable contributor.

# Sun Life MFS Monthly Income Fund

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Strong stock selection in the Information Technology and Industrials sectors also added value. Within the Information Technology sector there were no individual stocks that were among the Fund's largest relative contributors during the period. Within the Industrials sector overweight positions in leading distributor of Caterpillar products Finning International and integrated municipal solid waste services company Waste Connections aided relative returns.

Elsewhere, overweight holdings of precious metals exploration company Agnico Eagle Mines, oil and gas exploration company Enerplus, oil and gas development company Vermilion Energy and oil exploration company Torc Oil and Gas aided relative performance. An underweight position in asset management company Brookfield Asset Management and the timing of ownership of communication services provider BCE also contributed to relative results. The Fund's holdings of steel manufacturer Ternium (Argentina) further contributed to relative performance as the stock outperformed the benchmark during the period.

Within the fixed income segment, the U.S. corporate fixed income exposure added value, as it outperformed the benchmark's government bonds. Credit selection in Industrial and Energy bonds also added value, particularly the Fund's preference for retail store, consumer products and pipeline bonds. A short duration position relative to the benchmark also added value as federal bond yields rose significantly during the period.

## Recent Developments

Sluggish global growth weighed on both developed and Emerging Market ("EM") economies during much of the period, though signs of improved growth became evident in late 2016. The U.S. Federal Reserve increased interest rates by 25 basis points at the end of the period, the second hike of the cycle which began in December 2015. Globally, however, central bank policy remained highly accommodative, which forced many government, and even some corporate bond yields into negative territory during the period. During the first half of the period, the United Kingdom voted to leave the European Union, beginning a multi-year process of negotiation in order to achieve "Brexit." While markets initially reacted to the vote with alarm, the spillover to European and EM economies were relatively short-lived, although risks of further hits to European Union cohesiveness could re-emerge. Late in the period, the surprising U.S. presidential election outcome prompted a significant rally in equities and a rise in bond yields in anticipation of an inflationary policy mix from the incoming Trump administration.

Headwinds from lower energy and commodity prices, which had spread beyond the Energy, Materials and Industrial sectors early in the period, decreased later in the period as

stabilizing oil prices helped push energy earnings higher relative to expectations. A sharp rise in the U.S. Dollar was a headwind for multinationals late in the period. The sharp rise in the U.S. Dollar also weighed on earnings. U.S. consumer spending held up well during the second half of the period amid a modest increase in real wages and relatively low gasoline prices. Demand for automobiles reached near-record territory, while the housing market continued its recovery. Slow global trade continued to mirror slow global growth, particularly for many EM countries. That said, EM countries began to show signs of a modest upturn in activity along with adjustment in their external accounts. These improved conditions appeared to have reassured investors and contributed to record inflows into the asset class during July and August as negative yields for an increasing share of developed market bonds drove yield-seeking investors further out on the risk spectrum.

Similar investor inflows were experienced in the investment grade and high yield corporate markets. Late in the period, however, new challenges emerged for emerging markets debt as a result of the U.S. presidential election, which raised concerns about the potential for a protectionist turn in U.S. trade policy which could negatively impact EM economies. These concerns, along with rising expectations for U.S. growth, inflation and rates, have turned the tables on flows into emerging market debt. Since the election, flows have reversed. As of the end of the period, the markets seemed to be in a wait-and-see mode, looking for evidence to either confirm or refute the repricing of risk that has occurred since Election Day.

Effective February 5, 2016, all Series E and EF units were re-designated to Series A units, under the Front End Sales Charge option, and Series F units, respectively, of the same Fund. Please refer to the Fund's simplified prospectus for more details about the captioned change and for details about the Private Client Program.

## Related Party Transactions

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

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.

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As portfolio manager, the Manager is responsible for managing the investment portfolio of the Fund directly or through sub-advisors. The Manager has retained MFS Investment Management Canada Limited (“MFSIM”), an affiliate, to act as a sub-advisor for the Fund.

The Manager is an indirect wholly owned subsidiary of Sun Life Financial Inc., which also has an indirect majority ownership interest in MFSIM.

## 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 the following series of units: A, T5, F, I and O. The date of creation for Series A, T5, F and I units was September 1, 2011, and the date of creation for Series O units was April 1, 2014.

Series A and T5 units are available to all investors.

Series T5 units are designed to provide investors with a fixed monthly distribution based on a target annualized distribution rate of 5% of the net asset value per unit at the end of the prior year.

Series F units are available to investors who have a fee-based account with their dealer and whose dealer has signed an

agreement with the Manager. Instead of paying sales charges, investors buying Series F units pay fees to their dealer for investment advice and other services. The Manager does not pay any commissions to dealers in respect of Series F units, so the Manager can charge a lower management fee.

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.

Series O units are available to investors through the Private Client program and must be purchased through a Private Client account. Each Series O investor pays a management fee directly to the Manager and is eligible for management fee reductions, if any, based on the value of Series O units held in the investor’s Private Client account. Series O management fees are paid, after subtracting any management fee reductions, by a redemption of Series O units in the investor’s account.

## 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 (\$) <sup>(1)(4)</sup> Sun Life MFS Monthly Income Fund – Series A

	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Net assets value, beginning of period	10.52	11.32	10.72	10.28	10.20
<b>Increase (decrease) from operations:</b>					
Total revenue	0.39	0.43	0.42	0.40	0.44
Total expenses	(0.19)	(0.19)	(0.20)	(0.17)	(0.18)
Realized gains (losses) for the period	(0.02)	(0.17)	0.13	(0.04)	0.17
Unrealized gains (losses) for the period	0.89	(0.47)	0.56	0.60	0.14
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>1.07</b>	<b>(0.40)</b>	<b>0.91</b>	<b>0.79</b>	<b>0.57</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.11)	(0.27)	(0.27)	(0.28)	(0.33)
From dividends	(0.14)	–	–	–	–
From capital gains	–	–	–	–	(0.15)
Return of capital	(0.11)	(0.09)	(0.09)	(0.08)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.48)</b>
<b>Net assets value, end of period</b>	<b>11.21</b>	<b>10.52</b>	<b>11.32</b>	<b>10.72</b>	<b>10.27</b>

# Sun Life MFS Monthly Income Fund

## Sun Life MFS Monthly Income Fund – Series T5

	2016	2015	2014	2013	2012
	(\$)	(\$)	(\$)	(\$)	(\$)
Net assets value, beginning of period	14.70	16.11	15.50	15.11	15.22
<b>Increase (decrease) from operations:</b>					
Total revenue	0.54	0.60	0.62	0.60	0.63
Total expenses	(0.26)	(0.28)	(0.28)	(0.25)	(0.26)
Realized gains (losses) for the period	(0.03)	(0.27)	0.26	0.04	0.32
Unrealized gains (losses) for the period	1.20	(0.68)	0.84	0.76	0.17
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>1.45</b>	<b>(0.63)</b>	<b>1.44</b>	<b>1.15</b>	<b>0.86</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.23)	(0.62)	(0.58)	(0.50)	(0.70)
From dividends	(0.28)	–	–	–	–
From capital gains	–	–	–	–	(0.22)
Return of capital	(0.23)	(0.19)	(0.20)	(0.25)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.74)</b>	<b>(0.81)</b>	<b>(0.78)</b>	<b>(0.75)</b>	<b>(0.92)</b>
<b>Net assets value, end of period</b>	<b>15.42</b>	<b>14.70</b>	<b>16.11</b>	<b>15.50</b>	<b>15.05</b>

## Sun Life MFS Monthly Income Fund – Series F

	2016	2015	2014	2013	2012
	(\$)	(\$)	(\$)	(\$)	(\$)
Net assets value, beginning of period	10.78	11.52	10.85	10.35	10.22
<b>Increase (decrease) from operations:</b>					
Total revenue	0.38	0.46	0.41	0.41	0.43
Total expenses	(0.13)	(0.13)	(0.13)	(0.11)	(0.12)
Realized gains (losses) for the period	(0.12)	(0.08)	0.23	(0.01)	0.19
Unrealized gains (losses) for the period	0.84	(0.31)	0.07	0.67	0.01
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.97</b>	<b>(0.06)</b>	<b>0.58</b>	<b>0.96</b>	<b>0.51</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.11)	(0.27)	(0.27)	(0.31)	(0.33)
From dividends	(0.14)	–	–	–	–
From capital gains	–	–	–	–	(0.15)
Return of capital	(0.11)	(0.09)	(0.09)	(0.05)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.48)</b>
<b>Net assets value, end of period</b>	<b>11.56</b>	<b>10.78</b>	<b>11.52</b>	<b>10.85</b>	<b>10.33</b>

## Sun Life MFS Monthly Income Fund – Series I

	2016	2015	2014	2013	2012
	(\$)	(\$)	(\$)	(\$)	(\$)
Net assets value, beginning of period	11.29	11.94	11.11	10.48	10.25
<b>Increase (decrease) from operations:</b>					
Total revenue	0.42	0.44	0.44	0.41	0.43
Total expenses	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)
Realized gains (losses) for the period	(0.01)	(0.23)	0.13	(0.04)	0.16
Unrealized gains (losses) for the period	0.92	(0.36)	0.62	0.64	0.14
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>1.32</b>	<b>(0.16)</b>	<b>1.18</b>	<b>1.00</b>	<b>0.71</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.11)	(0.27)	(0.27)	(0.30)	(0.33)
From dividends	(0.14)	–	–	–	–
From capital gains	–	–	–	–	(0.16)
Return of capital	(0.11)	(0.09)	(0.09)	(0.06)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.49)</b>
<b>Net assets value, end of period</b>	<b>12.25</b>	<b>11.29</b>	<b>11.94</b>	<b>11.11</b>	<b>10.47</b>

## Sun Life MFS Monthly Income Fund – Series O

	2016	2015	2014
	(\$)	(\$)	(\$)
Net assets value, beginning of period	9.66	10.27	10.00
<b>Increase (decrease) from operations:</b>			
Total revenue	0.36	0.38	0.27
Total expenses	(0.02)	(0.02)	(0.02)
Realized gains (losses) for the period	–	(0.21)	0.04
Unrealized gains (losses) for the period	0.73	(0.72)	(0.17)
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>1.07</b>	<b>(0.57)</b>	<b>0.12</b>
<b>Distributions:</b>			
From income (excluding dividends)	(0.11)	(0.27)	(0.20)
From dividends	(0.14)	–	–
From capital gains	–	–	–
Return of capital	(0.11)	(0.09)	(0.07)
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.36)</b>	<b>(0.36)</b>	<b>(0.27)</b>
<b>Net assets value, end of period</b>	<b>10.41</b>	<b>9.66</b>	<b>10.27</b>

<sup>(1)</sup> This information is derived from the Fund's audited annual financial statements.

<sup>(2)</sup> 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.

<sup>(3)</sup> Distributions were paid in cash, reinvested in additional units of the Fund, or both.

<sup>(4)</sup> 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").

# Sun Life MFS Monthly Income Fund

## Ratios and Supplemental Data<sup>(6)</sup>

### Sun Life MFS Monthly Income Fund – Series A

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	13,100,103	9,528,746	12,767,645	9,271,025	7,076,772
Number of units outstanding <sup>(1)</sup>	1,168,310	905,511	1,127,740	864,880	688,268
Management expense ratio (%) <sup>(2)</sup>	1.63	1.62	1.62	1.63	1.61
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	1.63	1.62	3.05	3.16	3.15
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.03	0.03	0.04	0.14
Portfolio turnover rate (%) <sup>(4)(5)</sup>	35.75	32.68	42.76	43.88	92.75
Net asset value per unit (\$) <sup>(1)</sup>	11.21	10.52	11.32	10.72	10.28

### Sun Life MFS Monthly Income Fund – Series T5

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	440,359	262,796	282,762	191,718	12,962
Number of units outstanding <sup>(1)</sup>	28,554	17,874	17,551	12,365	858
Management expense ratio (%) <sup>(2)</sup>	1.64	1.64	1.63	1.66	1.62
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	1.64	1.64	3.06	3.23	3.17
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.03	0.03	0.04	0.14
Portfolio turnover rate (%) <sup>(4)(5)</sup>	35.75	32.68	42.76	43.88	92.75
Net asset value per unit (\$) <sup>(1)</sup>	15.42	14.70	16.11	15.50	15.11

### Sun Life MFS Monthly Income Fund – Series F

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	660,182	25,359	677,529	42,844	62,832
Number of units outstanding <sup>(1)</sup>	57,106	2,353	58,792	3,950	6,073
Management expense ratio (%) <sup>(2)</sup>	1.08	1.07	1.07	1.08	1.05
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	1.08	1.07	2.02	2.10	2.72
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.03	0.03	0.04	0.14
Portfolio turnover rate (%) <sup>(4)(5)</sup>	35.75	32.68	42.76	43.88	92.75
Net asset value per unit (\$) <sup>(1)</sup>	11.56	10.78	11.52	10.85	10.35

### Sun Life MFS Monthly Income Fund – Series I

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	4,355,960	2,489,366	4,049,438	3,656,919	3,335,214
Number of units outstanding <sup>(1)</sup>	355,517	220,459	339,245	329,044	318,106
Management expense ratio (%) <sup>(2)</sup>	0.06	0.06	0.06	0.06	0.06
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	0.06	0.06	0.11	0.12	1.76
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.03	0.03	0.04	0.14
Portfolio turnover rate (%) <sup>(4)(5)</sup>	35.75	32.68	42.76	43.88	92.75
Net asset value per unit (\$) <sup>(1)</sup>	12.25	11.29	11.94	11.11	10.48

## Sun Life MFS Monthly Income Fund – Series O

	2016	2015	2014
Total net asset value (\$) <sup>(1)</sup>	1,837,720	1,194,942	447,465
Number of units outstanding <sup>(1)</sup>	176,562	123,756	43,561
Management expense ratio (%) <sup>(2)</sup>	0.22	0.22	0.23
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	0.22	0.22	0.43
Trading expense ratio (%) <sup>(3)</sup>	0.04	0.03	0.03
Portfolio turnover rate (%) <sup>(4)(5)</sup>	35.75	32.68	42.76
Net asset value per unit (\$) <sup>(1)</sup>	10.41	9.66	10.27

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

<sup>(2)</sup> 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.

<sup>(3)</sup> 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.

<sup>(4)</sup> 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.

<sup>(5)</sup> Percentages are annualized.

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

## Management Fees

The annual maximum management fee paid by the Fund is a percentage of the average daily net asset value of each series exclusive of any applicable taxes and operating expenses, which is accrued daily and is paid to the Manager monthly in arrears. Management fees pay for portfolio and investment advisory services, oversight of any service providers, marketing and promotional activities, arranging for the distribution and sale of securities of the Fund, general administration of fund operations and sales and trailing commissions paid to dealers.

The percentages and major services paid for out of the management fees are set out below:

	As a Percentage of Management Fees		
	Maximum Annual Management Fee Rate (%)	Dealer Compensation (%) <sup>1</sup>	General Administration, Investment Advice and Profit (%)
Series A Units	1.25	30	70
Series T5 Units	1.25	27	73
Series F Units	0.75	–	100
Series I Units	–	–	–
Series O Units <sup>2</sup>	0.75	–	100

<sup>1</sup> Includes sales and trailing commissions.

<sup>2</sup> Series O management fees are not paid by the Fund. Series O investors pay management fees directly to the manager.

# Sun Life MFS Monthly Income Fund

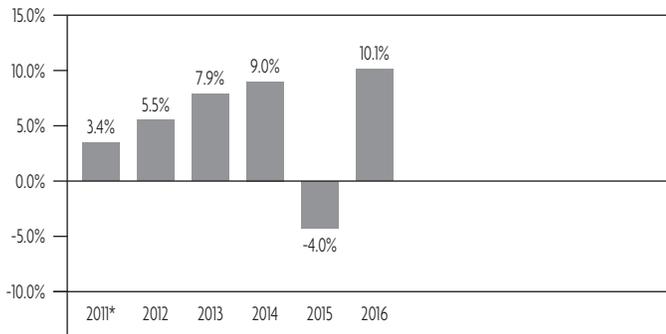
## PAST PERFORMANCE

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.

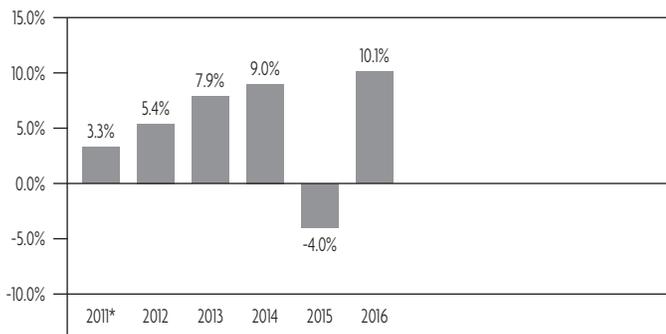
### Year-by-Year Returns

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 period.

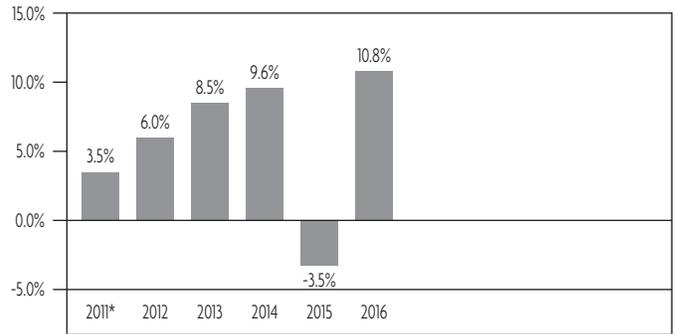
**Series A Units – Annual return for the period ended December 31, 2016**



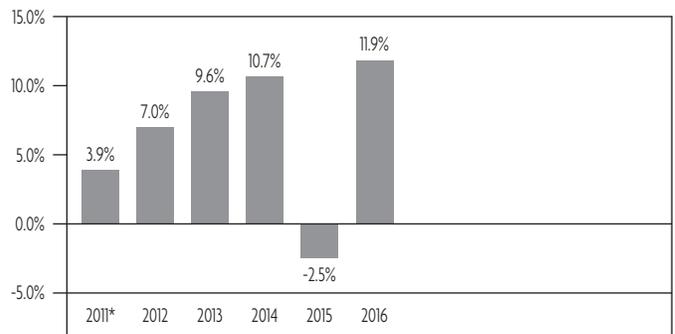
**Series T5 Units – Annual return for the period ended December 31, 2016**



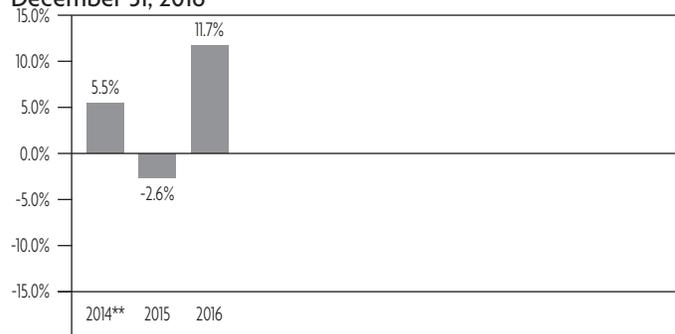
**Series F Units – Annual return for the period ended December 31, 2016**



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



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



\* for the period September 1, 2011 to December 31, 2011

\*\* for the period April 1, 2014 to December 31, 2014

## Annual Compound Returns

The following table compares the historical annual compound total returns of Series A, T5, F, I and O units of the Fund with the blended benchmark comprised of 50% S&P/TSX Capped Composite Index and 50% FTSE TMX Canada Universe Bond Index.

The S&P/TSX Capped Composite covers approximately 95% of the Canadian equities market, and has been the primary gauge for Canadian-based, Toronto Stock Exchange-listed companies since 1977. The FTSE TMX Canada Universe Bond

# Sun Life MFS Monthly Income Fund

Index is designed to be a broad measure of the Canadian investment-grade fixed income market.

The Series A units outperformed the benchmark since inception but underperformed the benchmark over the past 5 years, over the past 3 years and over the past year.

	1 Year	3 Year	5 Year	10 Year	Performance Start Date <sup>(1)(2)</sup>
Sun Life Monthly Income Fund – Series A	10.1%	4.8%	5.6%	N/A	5.9%
Sun Life MFS Monthly Income Fund – Series T5	10.1%	4.9%	5.6%	N/A	5.8%
Sun Life Monthly Income Fund – Series F	10.8%	5.4%	6.2%	N/A	6.4%
Sun Life MFS Monthly Income Fund – Series I	11.9%	6.5%	7.2%	N/A	7.5%
Blended Benchmark (50% S&P/TSX Capped Composite Index; 50% FTSE TMX Canada Universe Bond Index)	11.0%	5.9%	5.8%	N/A	5.3%
S&P/TSX Capped Composite Index	21.1%	7.1%	8.2%	N/A	6.6%
FTSE TMX Canada Universe Bond Index	1.7%	4.6%	3.2%	N/A	3.8%
Sun Life Monthly Income Fund – Series O	11.7%	N/A	N/A	N/A	5.1%
Blended Benchmark (50% S&P/TSX Capped Composite Index; 50% FTSE TMX Canada Universe Bond Index)	11.0%	N/A	N/A	N/A	4.8%
S&P/TSX Capped Composite Index	21.1%	N/A	N/A	N/A	5.5%
FTSE TMX Canada Universe Bond Index	1.7%	N/A	N/A	N/A	4.0%

<sup>(1)</sup> The performance start date for Series A, T5, F and I units was September 1, 2011.

<sup>(2)</sup> The performance start date for Series O units was April 1, 2014.

## SUMMARY OF INVESTMENT PORTFOLIO<sup>(1)</sup>

as at December 31, 2016

### Top 25 Investments

Holdings	Percentage of Net Asset Value of the Fund (%)
1 Royal Bank of Canada	4.6
2 Cash	4.3
3 The Toronto-Dominion Bank	3.7
4 The Bank of Nova Scotia	3.3
5 Province of Ontario, 4.70%, June 02, 2037	2.3
6 United States Treasury Note/Bond, 2.00%, February 15, 2025	2.1
7 Enbridge Inc.	2.1
8 Suncor Energy Inc.	2.0
9 Magna International Inc.	1.9
10 PNC Bank NA, 3.80%, July 25, 2023	1.7
11 Canadian Natural Resources Ltd.	1.7
12 TransCanada Corp.	1.5
13 Berkshire Hathaway Inc., 3.40%, January 31, 2022	1.5
14 Life Technologies Corp., 5.00%, January 15, 2021	1.4
15 Finning International Inc.	1.4
16 The Kroger Co., 3.40%, April 15, 2022	1.3
17 Wal-Mart Stores Inc., 6.50%, August 15, 2037	1.3
18 National Bank of Canada	1.3
19 Dream Office Real Estate Investment Trust	1.3
20 Colgate-Palmolive Co., 2.10%, May 01, 2023	1.3
21 United States Treasury Note/Bond, 3.00%, May 15, 2042	1.2
22 American International Group Inc., 4.13%, February 15, 2024	1.2
23 Verizon Communications Inc., 6.40%, September 15, 2033	1.2
24 Manulife Financial Corp.	1.2
25 Anheuser-Busch InBev Worldwide Inc., 5.38%, January 15, 2020	1.1
	<b>47.9</b>
<b>Total Net Asset Value (000's)</b>	<b>\$ 20,394</b>

### Sector Allocation

	Percentage of Net Asset Value of the Fund (%)
Corporate Bonds	41.3
Financials	17.7
Energy	11.2
Industrials	5.6
Materials	4.9
Cash and Cash Equivalents <sup>(2)</sup>	4.3
Utilities	3.3
Consumer Discretionary	2.8
Provincial Bonds	2.2
Real Estate	2.2
Consumer Staples	1.4
Telecommunication Services	1.4
Information Technology	0.9
Federal Bonds	0.8
	<b>100.0</b>

# Sun Life MFS Monthly Income Fund

## Asset Mix

	Percentage of Net Asset Value of the Fund (%)
Canadian Equities	43.7
U.S. Fixed Income	35.9
International Equities	5.8
Canadian Fixed Income	5.2
Cash and Cash Equivalents <sup>(2)</sup>	4.3
International Fixed Income	3.3
U.S. Equities	1.8
	<b>100.0</b>

<sup>(1)</sup> 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](http://www.sunlifeglobalinvestments.com) or by sending an email to us at [info@sunlifeglobalinvestments.com](mailto:info@sunlifeglobalinvestments.com).

<sup>(2)</sup> 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 MFS Monthly Income 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](http://www.sunlifeglobalinvestments.com) or [www.sedar.com](http://www.sedar.com).

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