
SLGI ASSET MANAGEMENT INC.

ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

for the period ended December 31, 2024

Sun Life Net Zero Target Bond Fund



Sun Life Net Zero Target 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@sunlifeglobalinvestments.com or by writing to us at SLGI Asset Management Inc., 1 York Street, Suite 3300, Toronto, Ontario, M5J 0B6. The financial statements are available on our website at www.sunlifeglobalinvestments.com and on SEDAR at www.sedarplus.ca.

Securityholders 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.

SLGI Asset Management Inc. (the "Manager") is an indirect wholly owned subsidiary of Sun Life Financial Inc.

MANAGEMENT DISCUSSION OF FUND PERFORMANCE

Investment Objectives and Strategies

The investment objectives of the Sun Life Net Zero Target Bond Fund (the "Fund") are to seek to achieve its objectives by investing in a well-diversified portfolio of primarily Canadian debt securities, comprising of, but not limited to, corporate debt, federal, provincial and corporate real return bonds, federal and provincial nominal bonds and inflation-protected securities.

The Fund's sub-advisor is Sun Life Capital Management (Canada) Inc. ("the Sub-Advisor"). In pursuing its investment objectives, the Sub-Advisor will seek to employ strategies and standards endorsed by, or derived from, widely recognized guidelines for achieving net zero greenhouse gas emissions or carbon emissions by 2050. The Sub-Advisor will periodically seek to adjust such strategies or adopt additional strategies as industry guidelines evolve.

The Fund seeks to reduce the GHG emission intensity of the Fund's corporate bond exposure to at least 50% of the Fund's baseline levels by 2030 and seeking to achieve further reductions in a manner that is consistent with achieving global net zero greenhouse gas emissions or carbon emissions by 2050, by investing in issuers that are expected to reduce carbon emissions intensity of the Fund, and/or issuers that the sub-advisor expects will reduce their carbon emissions intensity over time. In managing the Fund's sovereign and sub-sovereign bond exposure the Fund seeks to attain a greater than 10% portfolio allocation to green or sustainability bonds by 2030.

Risk

There were no changes in the Fund's investment objectives or strategies 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.

As at December 31, 2024, the majority of the Fund's investments are considered readily realizable and highly liquid; therefore, the Fund's liquidity risk is considered minimal.

Results of Operations

During the period, the net asset value of the Fund decreased from \$141.4 million to \$112.0 million due to negative net sales, partially offset by positive performance.

During the period, the Fund returned 5.5% for Series I securities, this result surpassed the Fund's benchmark, FTSE Canada Universe Bond Index, which returned 4.2%. Please refer to the 'Past Performance' section of this report for performance of each series of securities of the Fund.

Global bond markets saw elevated levels of volatility during the year, as central banks in developed countries started reducing interest rates. Bond yields came down during the year due to rate cuts but went up towards the end of the period. Bond yields went up due to strong economic data and uncertainty around potential inflationary policies of the new government in the U.S.

All major central banks in developed countries except Japan reduced their interest rates as inflation came down closer to their target. The Federal Reserve (Fed) in U.S. cut rates for three consecutive times, bringing the target range to 4.25% - 4.5%. The European Central Bank (ECB) also cut rates four times during the year bringing the base rate to 3%. The Bank of Canada (BoC) reduced the rates by 1.75%. The BoC anticipates lower economic growth and inflation in Canada due to the government decision to reduce immigration levels.

High yield bonds outperformed investment grade bonds during the period. High yield bonds saw their spreads reduced due to higher demand from investors and stronger economic growth. A spread is the difference in yield between a Treasury bond and another debt security of the same maturity but different credit quality. Investment grade bonds are the highest quality bonds as determined by a credit rating agency. High yield bonds are more speculative, with a credit rating below investment grade bonds.

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Most emerging market bonds saw lower yields as developing economies central banks reduced rates. In China, long-term benchmark yields remained near multi-decade lows as the People's Bank of China (PBoC) lowered its policy rates. Few emerging markets like Brazil and Indonesia raised rates during the year to ensure currency stability. Emerging market hard currency bonds outperformed local currency bonds. Local currency bonds had lower returns due to stronger U.S. dollar.

An overweight allocation to Canadian corporate bonds and underweight allocation to federal and provincial bonds contributed to performance. Canadian corporate bonds outperformed federal and provincial bonds during the period. Sector selection within Canadian corporate bonds contributed to performance. Allocation to Financials and Communication sector contributed to performance.

An allocation to longer duration bonds detracted from performance. Longer duration bonds underperformed shorter duration bonds due to higher volatility. The higher the duration, the more bond prices will drop as bond yields rise. The Fund's positioning on the yield curve (a line that plot yields of bonds with equal credit quality but different maturity dates) detracted from performance.

ESG Impact

The Fund follows an active investment approach for achieving net zero greenhouse gas emissions ("GHG") or carbon emissions by 2050. The fund is on track to meet its goal to reduce GHG emissions intensity profile of corporate bonds by a minimum of 50% by 2030 with a baseline of 2019, as measured by CEVI (Carbon Emissions to Value Invested).

At December 31, 2024, CEVI reduction of the fund's corporate bonds exposure was 62% versus 2030 objective of 50% reduction. The Fund also made progress in increasing the allocation to labelled green, sustainability or SDG climate sovereign and sub-sovereign bonds to 9.98% at December 31, 2024 (versus the target of minimum 10% allocation by 2030).

Consistent with the fund's objective to increase allocation to labelled green, sustainability or SDG climate sovereign and sub-sovereign bonds, the fund has been buying corporate bonds with a better or less volatile GHG emissions reduction trajectories while ensuring the fund's total return objective is being met. The Fund added City of Ottawa, Ontario and Canada green bond new issues and funded those by selling non-green Ontario and Canada bonds.

During the period, the Fund trimmed the allocation to General Motors Financial of Canada, Ltd. to buy Canadian Western Bank (CWB) new issue, due to better GHG emissions reduction trajectory for CWB with a better spread at similar duration. In the second half, the fund exited H&R REIT position to buy Granite REIT and First Capital REIT, which offered better GHG emissions trajectory and enhanced the yield while moving up in quality. A spread is the difference in yield between a Treasury bond and another debt security of the same maturity but different credit quality.

Recent Developments

Global tensions and conflicts within some geographic regions have continued to impact global markets and economies. In addition, there continue to be tensions between larger nations over a number of issues, including trade, technology, human rights, and sovereignty. These issues have, in some cases, resulted in government sanctions and trade restrictions. These global tensions and regional conflicts, documented in the media, create a more challenging operating environment. The longer-term impact to geopolitical norms, supply chains and investment valuations is uncertain. The Manager continues to watch for developments and assess the impact to investment strategies.

Related Party Transactions

SLGI Asset Management Inc. is the manager, trustee and portfolio manager of the Fund. 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.

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 securityholders.

As portfolio manager, the Manager is responsible for managing the investment portfolio of the Fund directly or through sub-advisors. The Manager has retained Sun Life Capital Management (Canada) Inc. ("SLC Management"), an affiliate of the Manager, to act as sub-advisor for the Fund.

The Fund may have direct or indirect holdings in Sun Life Financial Inc. or its affiliates or other funds managed by the Manager or its affiliates. Funds managed by the Manager, or its affiliates, may invest in securities of the Fund.

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The Manager has a distribution agreement with Sun Life Financial Investment Services (Canada) Inc. (the “Dealer”), a company under common control, under which the Dealer may distribute securities of the funds offered by the Manager in the jurisdictions in which the Dealer is so authorized.

Fund Administrative Expenses

The Manager pays certain operating expenses of the Fund (the “Administration Expenses”) in return for a fixed administration fee paid to the Manager by the Fund (“Administration Fee”). The Administration Fee is based on the net asset value of each series of securities 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 any regulatory fees and expenses payable by the Manager) and trustee fees for registered plans. The amount of this charge is disclosed as Fixed annual administration fees in the Fund’s Statements of Comprehensive Income found in the annual financial statements.

The 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 Independent Review Committee (“IRC”); taxes payable by the Fund; contingent fees for foreign tax reclaim filings; and the costs of complying with any new regulatory or legal requirement imposed on the Fund. The Fund allocates Fund Costs proportionately among each series of securities of the Fund to which they apply. The Fund Costs that are specific to a series of securities are allocated to that series. These amounts are paid out of the assets attributed to each series of securities of the Fund, which reduces the return you may receive.

Fees and expenses payable to or in connection with the IRC are allocated to the fund and series to which they apply in a manner that, in the Manager’s view, is considered fair and reasonable. For the purpose of allocating IRC costs across the Funds, the Manager distinguishes between two categories of Funds: Funds that are structured as fund of funds and Funds that hold direct investments. The Manager has determined that, based on the complexity of the issues to be reviewed by the IRC for the Funds in each category, it is appropriate for the Funds that are structured as fund of funds to be allocated a lesser proportion of IRC costs than Funds that hold direct investments. The Manager first attributes IRC costs to each such category of Funds, and then allocates such costs equally between the Funds in each category. The amounts of these charges are disclosed in the line item “Independent review committee fees” in the Fund’s Statements of Comprehensive Income (Loss).

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 for the previous five years or for the period(s) since inception to December 31, 2024.

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

Sun Life Net Zero Target Bond Fund - Series I

| | 2024 (\$) | 2023 (\$) |
|--|---------------|---------------|
| Net asset value, beginning of period | 10.16 | 10.00 |
| Increase (decrease) from operations: | | |
| Total revenue | 0.43 | 0.02 |
| Total expenses | - | - |
| Realized gains (losses) for the period | 0.07 | 0.01 |
| Unrealized gains (losses) for the period | - | 0.16 |
| Total increase (decrease) from operations⁽²⁾ | 0.50 | 0.19 |
| Distributions: | | |
| From income (excluding dividends) | (0.43) | (0.03) |
| From dividends | - | - |
| From capital gains | (0.08) | (0.01) |
| Return of capital | - | - |
| Total annual distributions⁽³⁾ | (0.51) | (0.04) |
| Net asset value, end of period | 10.19 | 10.16 |

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

(2) Net Assets and distributions are based on the actual number of securities outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of securities outstanding over the financial period.

(3) Distributions were paid in cash, reinvested in additional securities of the Fund, or both.

Ratios and Supplemental Data

Sun Life Net Zero Target Bond Fund - Series I

| | 2024 | 2023 |
|--|---------|---------|
| Total net asset value (\$000s) ⁽¹⁾ | 112,014 | 141,446 |
| Number of securities outstanding (000s) ⁽¹⁾ | 10,995 | 13,923 |
| Management expense ratio (%) | 0.03 | 0.03 |
| Management expense ratio before waivers or absorption (%) ⁽²⁾ | 0.03 | 0.03 |
| Trading expense ratio (%) ⁽³⁾ | - | - |
| Portfolio turnover rate (%) ⁽⁴⁾ | 41.09 | 27.50 |
| Net asset value per security (\$) ⁽¹⁾ | 10.19 | 10.16 |

(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) including the Fund’s allocated percentage of Fund-on-Funds’ expenses for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period.

(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.

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Management Fees

The maximum annual management fee paid by the Fund is a percentage of the average daily net asset value of each series of securities of the Fund 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.

Series I management fees are not paid by the Fund. Series I investors negotiate management fees and pay directly to the Manager.

Past Performance

The performance information shown assumes that all distributions made by the Fund in the periods shown were reinvested in additional securities of the Fund. The performance information does not take into account sales, redemption, distribution, other optional charges or income tax payable by any securityholder that would have reduced returns or performance. How the Fund has 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 Securities – Annual return for the period ended December 31, 2024



(*) for the period of December 6, 2023 to December 31, 2023.

Annual Compound Returns

The table compares the historical annual compound total returns of Series I securities of the Fund with the following benchmark and broad-based index, if applicable:

The benchmark (the “Benchmark”) is composed of:

FTSE Canada Universe Bond Index

The Series I units outperformed the benchmark since inception, and over the past year.

A discussion of the Fund’s performance compared to its benchmark and broad-based index or indices, if applicable, can be found in the Results of Operations section.

| | 1 Year | 3 Year | 5 Year | 10 Year | Performance Start Date ⁽¹⁾ |
|-----------|--------|--------|--------|---------|---------------------------------------|
| Series I | 5.5% | - | - | - | 7.0% |
| Benchmark | 4.2% | - | - | - | 5.7% |

(1) The performance start date for Series I securities was December 6, 2023.

INDEX DESCRIPTION(S)

The FTSE Canada Universe Bond Index is a market capitalization weighted index composed of investment grade, fixed coupon, government and corporate bonds, issued in Canada and denominated in Canadian dollars, with a remaining term to maturity of at least one year.

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Summary of Investment Portfolio ^{*}

as at December 31, 2024

Top 25 Investments

| Holding Name | Percentage of Net Asset Value of the Fund (%) |
|---|---|
| 1 Province of Quebec, 3.60%, Sep 01, 2033 | 5.3 |
| 2 Province of Ontario, 3.65%, Jun 02, 2033 | 4.8 |
| 3 Canadian Government Bond, 3.50%, Mar 01, 2034 | 4.1 |
| 4 Energir Inc., 7.05%, Oct 30, 2030 | 4.1 |
| 5 Choice Properties Real Estate Investment Trust, 5.70%, Feb 28, 2034 | 3.9 |
| 6 Province of Ontario, 4.65%, Jun 02, 2041 | 3.8 |
| 7 Bank of Montreal, 4.71%, Dec 07, 2027 | 3.7 |
| 8 Bank of America Corp., 3.62%, Mar 16, 2028 | 3.6 |
| 9 CU Inc., 4.09%, Sep 02, 2044 | 3.5 |
| 10 Province of New Brunswick, 4.80%, Jun 03, 2041 | 2.8 |
| 11 Canadian Imperial Bank of Commerce, 5.50%, Jan 14, 2028 | 2.8 |
| 12 Cash and Cash Equivalents | 2.7 |
| 13 Province of British Columbia, 4.30%, Jun 18, 2042 | 2.7 |
| 14 BP Capital Markets PLC, 3.47%, May 15, 2025 | 2.7 |
| 15 Thomson Reuters Corp., 2.24%, May 14, 2025 | 2.7 |
| 16 City of Ottawa, 3.75%, Oct 02, 2034 | 2.6 |
| 17 BNP Paribas SA, 2.54%, Jul 13, 2029 | 2.6 |
| 18 Royal Bank of Canada, 3.40%, Mar 24, 2025 | 2.5 |
| 19 Northern States Power Co., 5.40%, Mar 15, 2054 | 2.5 |
| 20 City of Toronto, 3.20%, Aug 01, 2048 | 2.2 |
| 21 Province of Ontario, 2.90%, Dec 02, 2046 | 2.2 |
| 22 Hydro One Inc., 6.03%, Mar 03, 2039 | 2.1 |
| 23 The Toronto-Dominion Bank, 7.28%, Oct 31, 2082 | 1.9 |
| 24 Province of Ontario, 4.05%, Feb 02, 2032 | 1.8 |
| 25 Royal Bank of Canada, 4.63%, May 01, 2028 | 1.8 |
| | 75.4 |
| Total Net Asset Value (000s) | \$ 112,014 |

Sector Allocation

| | Percentage of Net Asset Value of the Fund (%) |
|-------------------------------------|---|
| Canadian Corporate Bond | 43.1 |
| Canadian Provincial Government Bond | 26.9 |
| U.S. Corporate Bond | 7.4 |
| International Corporate Bond | 7.0 |
| Canadian Municipal Government Bond | 6.5 |
| Canadian Federal Government Bond | 5.5 |
| Derivatives - Long | 4.0 |
| Cash and Cash Equivalents | 2.7 |
| U.S. Government Bond | 1.3 |
| Other Assets less Liabilities | (0.5) |
| Derivatives - Short | (3.9) |
| | 100.0 |

Asset Allocation

| | Percentage of Net Asset Value of the Fund (%) |
|-------------------------------|---|
| Canadian Fixed Income | 82.0 |
| U.S. Fixed Income | 8.7 |
| International Fixed Income | 7.0 |
| Derivatives - Long | 4.0 |
| Cash and Cash Equivalents | 2.7 |
| Other Assets less Liabilities | (0.5) |
| Derivatives - Short | (3.9) |
| | 100.0 |

(*) All information is as at December 31, 2024. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. Unless otherwise noted positions are long. 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.

Forward-Looking Statements

This management report of fund performance may contain forward-looking statements about the Fund, including its strategies, 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 and pandemics. 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. The Manager does not undertake any obligation to update or revise any forward-looking statements to reflect events or circumstances after the date of this document or to reflect new information or the occurrence of unanticipated events, except as required by law.

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