

# Sun Life Participating Account

Backed by our strength, stability, investment performance and management style

Since 1871, many changes have occurred in the economy and Sun Life's participating (par) account has remained and continues to remain stable, compared to other financial investment vehicles. As a financially strong, prudently managed Canadian life insurance company, we can assure you that this strength, stability, and philosophy carries through to the management of our par accounts.

As a participating policy owner, the policy you own may be eligible to earn a policy owner dividend. The premiums you pay for your policy are pooled with those from other participating policy owners. The amount not required to pay for benefits and expenses is invested in the Sun Life Participating Account. The performance of the par account over the long-term is important as it affects all of the non-guaranteed values in your policy.

There are a number of key factors affecting participating account performance, including:

- mortality,
- expenses (including taxes),
- lapses, and
- investment returns.

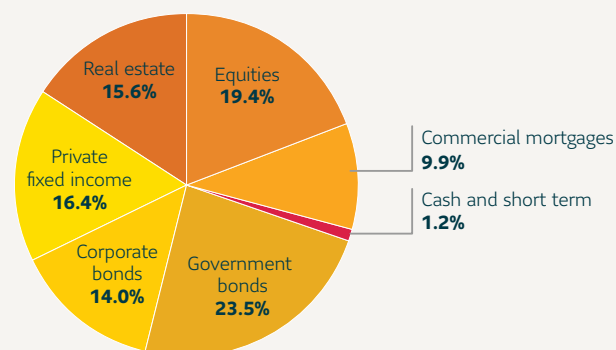
While these factors are important in determining the dividend scale, investment returns typically have the most impact on the dividend scale, due to the variability associated with investments.

**The dividend scale is the outcome of a series of calculations. It determines how the available earnings for a group of participating policies will be allocated to each individual policy in the form of policy owner dividends.**

## How is the Sun Life Participating Account managed?

The Sun Life Participating Account is managed to meet the long-term needs of our participating policy owners. Due to the long-term investment philosophy of this account and the stable cash flows into this account, Sun Life can invest in longer-term holdings such as real estate, equities, bonds (long-and short-term) and mortgages.

This chart shows the invested asset mix of the Sun Life Participating Account as of December 31, 2022.



## How do par portfolio investments respond to market conditions?

The investment return experience is normally the most important factor that influences the earnings available to be credited as dividends. Sun Life applies a long-term investment strategy, which together with a large well-established participating account, contributes to more stable investment returns. As a result, these investment returns tend to fall more slowly than actual interest rates and equity markets. They can also recover more slowly when actual interest rates increase or as equity markets enter periods of growth.

## Achieve strong and stable returns for a lifetime

The combination of a long-term investment strategy, a large, well-established par account and a prudent management philosophy contributes to strong, stable returns for par policy owners. In addition, smoothing techniques are applied to pass the effect of gains and losses in the asset portfolio through the dividend scale more slowly. Using this approach can help to absorb the impact of short-term market fluctuations on dividend scale performance. The overall result is a dividend scale that tends to be less volatile and less extreme than the market itself.

## Historical average returns as of December 31, 2022

	Sun Life Participating Account Yield	Sun Life Par Account dividend scale interest rate	Government of Canada 10-year bonds	S&P/TSX total return	Five-year GIC	Consumer Price Index
1-year (2022)	-7.73%	6.00%	2.86%	-5.84%	2.78%	6.32%
5-year	4.02%	6.15%	1.96%	6.85%	1.76%	3.22%
10-year	4.73%	6.44%	2.11%	7.74%	1.66%	2.38%
25-year	N/A	7.28%	3.61%	7.00%	2.59%	2.14%
25 year standard deviation	N/A	0.85%	1.52%	16.44%	1.19%	1.29%
30 year standard deviation	N/A	0.94%	2.11%	16.14%	1.79%	1.25%

### Participating Account Investment Yields

The Sun Par yield calculation incorporates a mark-to-market (current market values) valuation of all assets in the fund. This is to reflect current market values. However, the dividend scale interest rate (DSIR) doesn't use the annual mark-to-market returns of some assets (such as fixed income held to maturity) to determine the amount of dividends to be distributed annually each year. This makes sense because Par liabilities are long in duration, so we invest for the long term. The DSIR is a reflection of both smoothed returns over the recent past and our projection of investment returns looking forward (in the short term). These are the reasons why the Sun Par yield should not be used as a predictor for the DSIR.

As an example, in an environment where interest rates are decreasing, the market value of bonds tends to increase. However, Par portfolios, in many cases, will hold bonds to maturity. A decreasing interest rate environment could indicate future decreases in the DSIR, all other things being equal. If interest rates were to rise, this could indicate future increases in the DSIR, however, because of smoothing, the increases or decreases in the DSIR will happen gradually.

As well, the returns on more volatile non-fixed investments, such as equities and real estate, are smoothed when incorporated into the DSIR (i.e. the gains and losses are not fully recognized in the year they occur but are spread out over a number of years). This can result in a similar average return over the long term but, in the short term, by taking an average return, it can significantly reduce the volatility of these assets.

The benefit of this smoothing can be seen in Sun Life increasing the Sun Life Par Account dividend scale to 6.25% as of April 1, 2023, despite an overall -7.73% yield for the Sun Life Participating Account in 2022.

#### Notes:

1. The dividend scale interest rate is based on the Sun Life Participating Account (Open and Closed Blocks).
2. The dividend scale interest rate used in determining the investment component of policy owner dividends is based on the smoothed returns on assets backing the participating account liabilities.
3. The dividend scale interest rate is not guaranteed and is based on factors that are certain to change. The dividend scale interest rate is neither an estimate nor a guarantee of how the products will perform in future.
4. Government of Canada bond returns are nominal yields to maturity taken from Statistics Canada. Table 10-10-0122-01 Financial market statistics, December 31, 2022, Bank of Canada.
5. S&P/TSX composite total returns include the reinvestment of dividends.
6. Five-year GIC returns are nominal yields to maturity taken from Statistics Canada. Table 10-10-0145-01 Financial market statistics, as at Wednesday, Bank of Canada.
7. Consumer Price Index is taken from Statistics Canada. Table 18-10-0004-01 Consumer Price Index, monthly, not seasonally adjusted.

## Historical returns

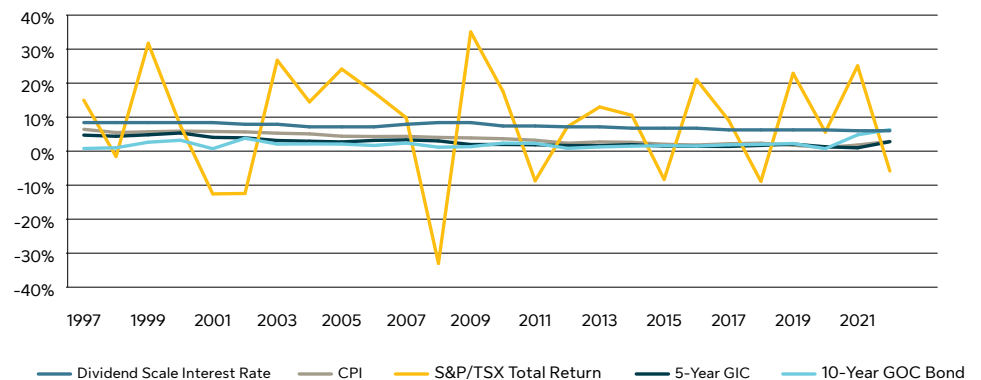
The performance of the Sun Life Participating Account affects the non-guaranteed values in your participating life insurance policy. Sun Life's long-term strategy and the accounting rules that govern participating policies contribute to providing a stable par account return.

The following chart and graph compare the Sun Life Participating Account dividend scale interest rates (in percentages) to Government of Canada (GOC) 10-year bonds, S&P/TSX, five-year guaranteed investment certificate (GIC) returns and the Consumer Price Index (CPI).

The dividend scale interest rate is based on the portfolio yield of the Sun Life Participating Account and takes into account other factors such as surplus levels and returns expected over the near term. We also employ smoothing techniques that help keep the dividend scale interest rate more stable over time.

Year	Sun Life Par Account Yield	Sun Life Par Account dividend scale interest rate (%)	Government of Canada 10-year bonds (%)	S&P/TSX total return (%)	Five-year GIC (%)	Consumer Price Index (%)
1991		10.90	9.76	12.02	8.94	3.75
1992		10.40	8.77	-1.43	7.33	2.17
1993		9.40	7.85	32.55	6.20	1.65
1994		8.65	8.63	-0.18	7.34	0.23
1995		8.40	8.28	14.53	7.06	1.74
1996		8.15	7.50	28.35	5.64	2.16
1997		8.40	6.42	14.98	4.71	0.78
1998		8.40	5.47	-1.58	4.38	1.00
1999		8.40	5.69	31.71	4.81	2.63
2000		8.40	5.89	7.41	5.34	3.20
2001		8.40	5.78	-12.57	4.05	0.72
2002		7.90	5.66	-12.44	3.91	3.80
2003		7.90	5.28	26.72	3.13	2.08
2004		7.15	5.08	14.48	2.92	2.13
2005		7.15	4.39	24.13	2.71	2.09
2006		7.15	4.30	17.26	3.16	1.67
2007		7.90	4.34	9.83	3.31	2.38
2008		8.40	4.04	-33.00	3.01	1.16
2009		8.40	3.89	35.05	1.95	1.32
2010	7.56	7.40	3.66	17.61	1.97	2.35
2011	8.08	7.40	3.21	-8.71	1.87	2.30
2012	7.86	7.15	2.33	7.19	1.65	0.83
2013	2.41	7.15	2.72	12.99	1.63	1.24
2014	10.96	6.75	2.60	10.55	1.92	1.47
2015	2.56	6.75	2.02	-8.32	1.47	1.61
2016	5.32	6.75	1.80	21.08	1.42	1.50
2017	6.00	6.25	2.18	9.10	1.39	1.87
2018	2.65	6.25	2.33	-8.89	1.69	1.99
2019	10.27	6.25	1.73	22.88	2.08	2.25
2020	9.10	6.25	1.08	5.60	1.29	0.73
2021	5.80	6.00	1.80	25.09	0.98	4.80
2022	-7.73%	6.00%	2.86%	-5.84%	2.78%	6.32%
2023*		6.25%				

\* Effective April 1, 2023.



## Why choose Sun Life for participating life insurance?

For over 150 years Sun Life has been one of the trusted names in financial services, helping millions of customers worldwide achieve lifetime financial security. Our first participating policy was issued in 1871 and policy owner dividends have been declared every year since 1877.

## Questions? We're here to help.

We're dedicated to helping you achieve a lifetime of financial security and live a healthier life. Talk to your advisor about Sun Life today! For more information and resources:  
**Visit [sunlife.ca](https://www.sunlife.ca) | Call 1 877 SUN-LIFE (1 877 786-5433)**