Investing: A closer look

Take a closer look at managing the investments in your plan, and how you can build upon the essentials of investing.

This brochure is a helpful reminder of what you've learned in the session you attended, including:

- What risks affect your investments
- What active and passive investment approaches are
- Investing at home, versus globally
- How **Morningstar**® can help you to better understand the investment options in your plan
- Where to find more insights to help you invest with confidence

Sun Life

Life's brighter under the sun

Group Retirement Services are provided by Sun Life Assurance Company of Canada, a member of the Sun Life group of companies.

The Risk Factor

Most common investment risks

Many market risks can affect the value of your investments. These are the most common categories of investment risk:

Economic/Political	A steady economic and political environment helps to keep the investments in that region more stable. But when a local or regional economy or political environment is unstable, typically the value of markets and investments in the area is too.
Inflation	If your rate of return isn't higher during high inflation, your savings won't buy you as much down the road. Guaranteed investments don't perform as well when inflation is high, because they don't adjust for inflation. See **Inflation (and your real rate of return)** for more information about this important topic.
Interest rate	When interest rates increase, bond values decrease and vice versa. Bond managers watch for potential interest rate changes to decide which types of bonds to invest in. Check out **Bonds and bond risks** for more information.
Sector	An economy is made up of sectors (like financials, health care or information technology). Each sector performs differently in the market depending on economic conditions. Some funds are more affected by the performance of a few sectors – rather like the old adage about having all your eggs in one basket. See **Get to know the S&P/TSX** for the impact of sector risk.
Currency	The value of your investments in other countries could benefit or be negatively impacted by changes in the value of the Canadian dollar. Some funds are "hedged" against currency risk. For more details, see **Currency: How important is the exchange rate?**

Inflation (and your real rate of return)

Inflation doesn't just affect the cost of products and services you buy.

In Canada, the official measure of inflation is the Consumer Price Index, or CPI. As the official measure, it is used to calculate annual increases to the Canada Pension Plan and Old Age Security.

Plus, inflation affects your investments.

You'll find the rate of return on your investment(s) on your statements. It's important to understand your real rate of return – that is, your rate of return when you subtract the value of inflation. The higher the rate of inflation, the more money that you will need to maintain your standard of living. That means under high inflation, you'll need to save more or earn a higher rate of return on your investments.

What's your real rate of return?

Let's assume your statement says your investment grew by 5%.

If inflation was 2%, your real return is 3% (5%-2%=3%).

Bonds and bond risks

What are the risks?

There are two types of bonds: government bonds and corporate bonds. Neither is risk-free.

There are two main risks to bond values:

- **Credit risk** (the ability of the bond's issuer to repay their debt to the bondholder)
- **Interest rate risk** (influenced by whether the Central Bank increases or decreases interest rates)

Credit risk

In practice, there are three categories of credit quality (low, medium and high). You can find out how your bond fund invests across these three types from the **Morningstar®** fund page (see **Take a closer look at funds and fees**). Generally, the lower the credit rating of a bond, the higher rate of interest it will pay you. This is because the bond issuer must offer higher interest rates to compensate investors for the higher credit risk. Some bonds do not have their credit quality rated by an official ratings agency and they fall under the "Not rated" category. This doesn't mean they're low quality. It means that the fund manager has to make a judgment about their quality.

Interest rate risk

There's an opposite, or inverse, relationship between interest rates and bond values. As interest rates go up, bond values go down (and vice versa).

Why does this happen?

When interest rates rise, new bond issues will pay a higher rate of interest than the old ones. This makes the old issues less valuable and their price drops.

Fund managers try to manage interest rate risk by holding bonds with different maturity dates.

Who's feeling active – or passive?

You may have heard about actively and passively managed funds. They each have advantages and disadvantages.

Passive (or "index") funds try to match the value of a particular market

- For example, the value of a Canadian equity index fund will move up and down with the value of its market – the S&P/TSX. You'll probably fare as well as the performance of the market.
- Passive/index funds tend to have lower fees compared to active funds.

The terms "active" and "passive" refer to a fund manager's style.

Tip: If the word "index" is in the naming convention of a fund, it is a passively managed fund.

Active funds try to do better than the benchmark they are measured against

- Fund managers analyze the markets and make active buying and selling decisions in an effort to get the best investment returns. For example, an actively managed U.S. equity fund will hold the stocks that the fund manager believes are most likely to rise in value. An active fund may even hold some assets in cash if the manager expects the markets to perform poorly, or they are awaiting buying opportunities.
- An active fund manager must spend more money on research than a passive/index fund manager. Therefore, actively managed funds charge higher fees than passive funds. Investors pay higher fees whether or not the active fund manager outperforms the index.
- If the fund manager makes the right decisions, you could do better than the markets. But if the fund manager misjudges, the fund could underperform the market.

Invest at home, or abroad?

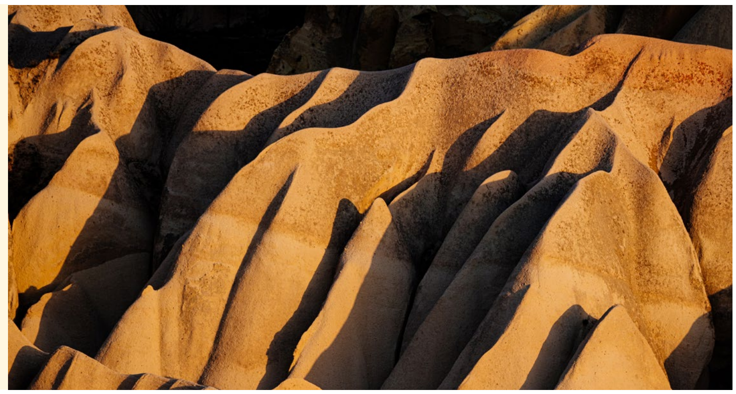
Get to know the S&P/TSX

Canadian equities are traded on the Toronto Stock Exchange, or S&P/TSX. There are many indices used to track the value of the Canadian equity market, but the key index is the S&P/TSX Composite Index. It consists of over 200 of the largest companies in the Canadian equity market.

There are many sectors in the Canadian equity market, but they're not equally represented or "weighted" in the index. Some sectors have a larger presence than others (like financials, as you can see in the chart below).

Remember our talk about sector risk?

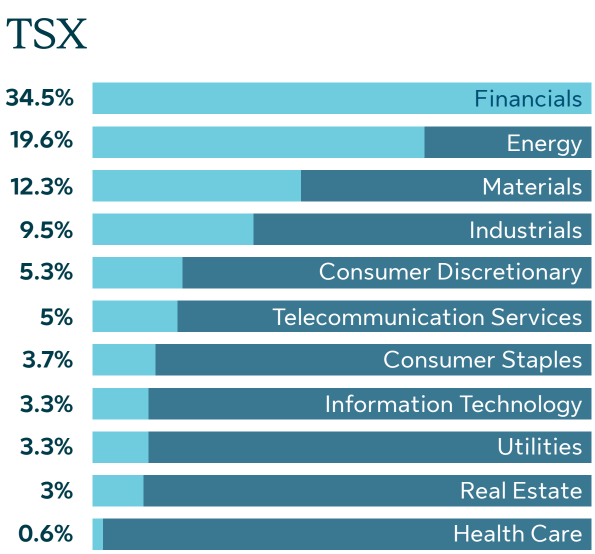
When you hear the S&P/TSX rose or declined in a particular year, the truth is more nuanced than that. Some sectors may have done well and some not so well. Because the S&P/TSX is heavily concentrated in just a few sectors, its performance is very much affected by performance in those few sectors (like financials, energy and materials).

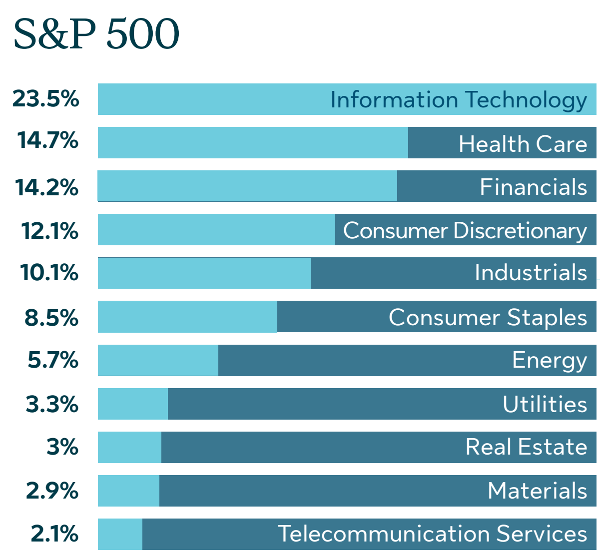


The S&P/TSX's closest neighbour: The S&P 500

In the U.S., the S&P 500 Index is the most common index to measure the market, and is similar to the S&P/TSX Composite Index in Canada. There are some important differences:

- The S&P 500 is much larger than the S&P/TSX.
- The S&P 500 is more diversified by sector than the S&P/TSX. They both have the same number of sectors, but the S&P 500 is better spread out among the sectors. That means if a particular sector that's a large part of the S&P/TSX performs poorly, the S&P/TSX Composite Index performance is more negatively impacted. In other words, the S&P/TSX has higher sector risk.
- The S&P 500's largest sectors are IT, financials and health care; the S&P/TSX's largest sectors are financials, energy and industrials.





Based on GICS® sectors: The weightings for each sector of the index are rounded to the nearest tenth of a percent; therfore, the aggregate weights for the index may not equal 100%. As of Aug 31, 2017.

Equity markets outside North America

Your group plan may have funds that specialize in markets outside of North America. For example, Europe and Asia have their own equity markets.

Equity markets outside of North America give fund managers access to companies that are significant on the world stage. Some examples of companies you may see in your Top 10 holdings are Vodafone, Toyota, Michelin or Toshiba.

Different regions, different risks

There are three types of national equity markets:

- Developed (e.g. Canada, U.S., UK, Continental Europe, Japan and Australia)
- Emerging (e.g. China, India and many South American and Eastern European countries)
- Frontier (e.g. Romania and Sri Lanka)

Emerging and Frontier markets may experience higher rates of economic growth than developed markets because their economies are less mature. However, the economies and markets are often less stable and it may not be as easy for a fund manager to pull out when they want because of liquidity and local laws.

The two primary types of foreign equity funds are Global and International.

Global funds invest around the world with a significant weighting within North America, mainly the U.S.

International funds have little or no weighting in North America. The markets they most invest in are Europe, Australasia and the Far East.

Equities come in all sizes

You may choose funds based on the size of the companies the fund manager chooses to invest in.

For example, some funds specialize in medium- and large-sized companies whereas other funds (known as Small Cap funds) specialize in companies with a smaller market capitalization.

Medium- and large-sized companies often have more predictable revenues but small companies often have more growth potential, though they can be riskier.

What is a ...

Small cap fund?

It invests in companies worth less than $2 billion.

Medium cap fund?

It invests in companies worth between $2 billion and $10 billion.

Large cap fund?

It invests in companies worth more than $10 billion.

Currency: How important is the exchange rate?

The value of the Canadian dollar also affects your investments

You'll regularly hear about the value of the Canadian dollar (most often compared to the value of the U.S. dollar). You know it affects you when you travel or buy imported products. However, the value of the Canadian dollar also affects your investments.

If you invest in a fund that is "currency-hedged", the changes in the value of the Canadian dollar relative to other currencies will have no effect upon performance.

When investing outside of Canada, exchange rate movements can have as much effect (positive or negative) as the fund or market performance itself.

Let's say you invested in an S&P 500 index fund that grew in absolute terms about 15% per year over the last three years. Let's also say the Canadian dollar declined significantly during that period compared to the U.S. dollar – in other words the U.S. dollar strengthened in value. Your investments in the S&P 500 would have had extra growth when you include the effect of the exchange rate movement over that time.

The opposite will be true if the Canadian dollar increased in value. In that case, the growth on your S&P 500 index fund will be reduced due to the increase in the Canadian dollar.

Take a closer look at funds and fees

Morningstar®

The **Morningstar®** fund pages in your **mysunlife.ca** account will give you a wealth of information about the funds in your group plan. Use **Morningstar®** to learn:

- How funds and fees are managed
- The asset classes they're invested in
- Their top holdings
- The sectors and countries in which they hold their investments
- The credit quality (for bonds)

Access Morningstar® at mysunlife.ca

- Sign in to **mysunlife.ca**
- Select **Manage plan**, then **my plan**
- Under the **Plan overview** menu, choose **View available investments**

There is a suite of options on this page:

- You'll see the **rates of return and unit values** for each fund option available in your plan. You can change the period of time used to measure investment performance.
- The **Fund Report** option will show a list of the funds you're invested in and all funds available in your plan; by clicking on the fund name, you'll get a full fund information sheet.
- **Market Indices** show you the index values for major markets around the world.
- **Fund QuickRank** quickly shows you which fund options in your plan are performing best over long- and short-term periods.
- **Instant X-Ray** shows you even more detail about your fund, and allows you to compare it to a benchmark of your choice.
- **Updates** will appear to give you any current news about the funds available in your plan.

Understand your fees

Don't forget that your group plan fund fees are competitive compared to similarly managed investment funds in comparable plans and financial institutions. This can make a big difference over time. Take a look at this example:

Years of contribution	Total contributions to your plan account	Management fee*				
		3%	2.5%	2%	1.5%	1%
10 years	$40,000	$46,132	$47,512	$48,936	$50,406	$51,923
20 years	$80,000	$105,634	$112,026	$118,870	$126,201	$134,054
30 years	$120,000	$182,379	$199,625	**$218,814**	$240,176	**$263,972**

$45,158

* Assuming a $4,000 yearly investment to a registered plan at a 5.75% gross rate of return, a 1% difference in fees adds up to $45,158 additional savings over 30 years. That's a lot of extra money, just for keeping an eye on your fees! Your group plan may also allow for you to transfer in external assets, in which case you could benefit from the lower fees on those savings as well.

You can check the fees you pay in your Sun Life group plan on your annual statement or online:

Sign in to **mysunlife.ca** > Select **Manage plan**, then **my plan** > Under the **Plan overview** menu, choose **Account fees**

Checklist: Three steps to investing

Now that you've built more knowledge to help you invest, it's time to put what you've learned into action. There are tools available to help you make decisions and keep building your understanding of investing.

Your action plan

☐ Complete the Asset allocation tool.

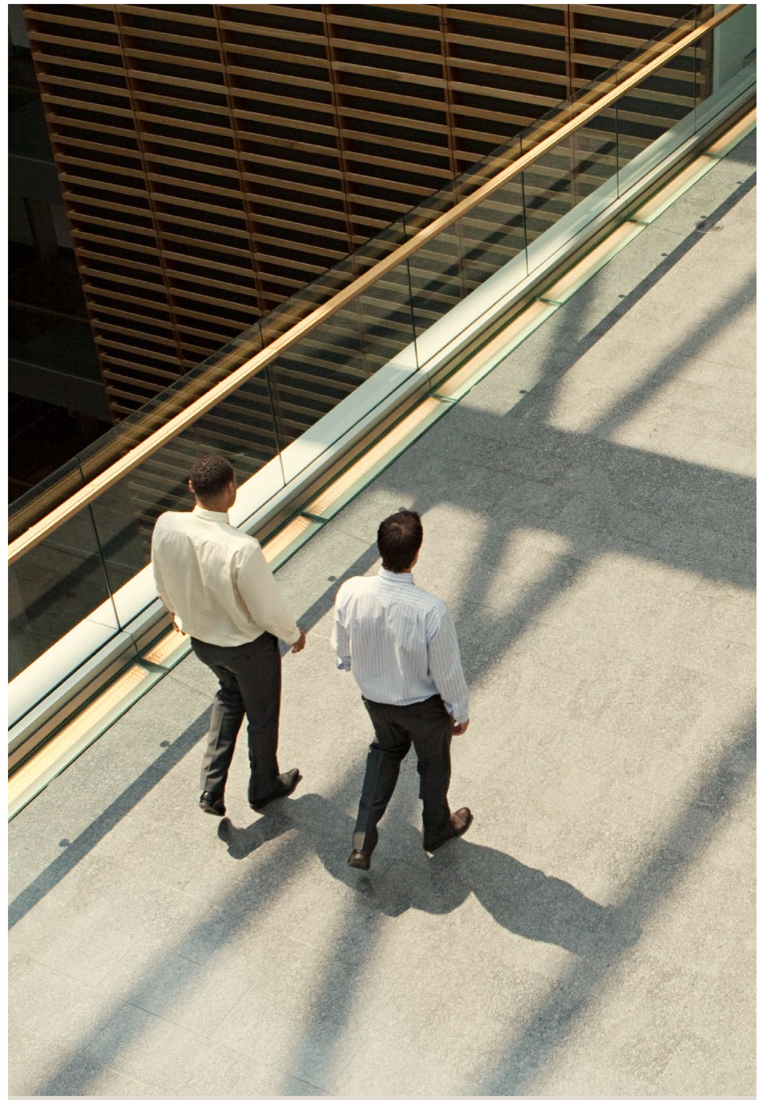
- This is your first step in determining an appropriate investment strategy that meets your short- or long-term goals. It will only take you a few minutes to complete.
- Go to **mysunlife.ca** > **Manage plan** > **my plan** > **Tools** > **Asset allocation.**

☐ Compare your fees.

- Compare the fees you pay in your group plan to those you would pay as an individual investor.
- Go to **mysunlife.ca** > **Manage plan** > **my plan** > **Plan overview** > **Account fees.**

☐ Review Morningstar® via mysunlife.ca.

- There is a wealth of information available through **Morningstar®**. The fund page reports will provide information such as how the fund is managed, top holdings, sector and geographical allocation.
- Go to **mysunlife.ca** > **Manage plan** > **my plan** > **Plan overview** > **View available investments.**



Handy tip:

It's easy to get distracted and forget about your action plan. To stay on track, put each of the checklist items in your calendar or smartphone so you remember to take action regularly.

We're here to help

Go mobile

Check your balances and see how your funds are doing. Download the **my Sun Life mobile app** on Google Play or the Apple App Store.

Visit us online

Visit **mysunlife.ca** for tools, articles and videos. Sign in and select **Chat live now** to get live support.

Live support

Call us at **1-866-733-8613**, Monday to Friday, 8 a.m. to 8 p.m. ET.

[0423-PRP-jd] (iwc-education-investment-brochure-e-0923-v3a-js)