

# Sun Life Financial Inc.

**Type of Engagement:** Annual Review

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## Introduction

In August 2019, Sun Life Financial Inc. (Sun Life) issued a CAD 750 million Series 2019-1 Subordinated Unsecured 2.38% Fixed/Floating Debentures due 2029 (the “2019 Sustainability Bond”), aimed at financing a variety of green and socially impactful projects. In March 2022, Sun Life engaged Sustainalytics to review the allocation of the 2019 Sustainability Bond proceeds to eligible projects and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Sun Life Sustainability Bond Framework.<sup>1</sup> Sustainalytics provided a Second-Party Opinion on the Framework in March 2019.<sup>2</sup>

## Evaluation Criteria

Sustainalytics evaluated the allocation of the equivalent amount of proceeds from the issuance of the sustainability bond in 2019 to projects and assets based on whether the projects and programmes:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Sun Life Sustainability Bond Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Sun Life Sustainability Bond Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria, and associated KPIs. Table 2 shows Sustainalytics’ detailed findings.

**Table 1: Use of Proceeds, Eligibility Criteria, and associated KPIs**

Use of Proceeds	Eligibility Criteria	Key performance indicators (KPIs)
<b>Renewable energy</b>	Investments in facilities and equipment dedicated to generation, transmission and distribution of energy from renewable sources, including: <ol style="list-style-type: none"> <li>i. Wind</li> <li>ii. Solar</li> <li>iii. Geothermal</li> <li>iv. Hydro (run of river, small scale &lt;25MW, upgrades of existing facilities or other hydro facilities subject to an ESG assessment<sup>3</sup>)</li> <li>v. Biomass (waste or other non-food feedstock that does not deplete existing terrestrial carbon pools)</li> </ol>	<ul style="list-style-type: none"> <li>• Tonnes of greenhouse gas (GHG) emissions reduced/avoided annually (measured in tonnes of CO<sub>2</sub> equivalent)</li> </ul>
<b>Energy efficiency</b>	Investments in facilities and equipment that reduce energy consumption or improve the efficiency of resources, including:	<ul style="list-style-type: none"> <li>• Tonnes of greenhouse gas (GHG) emissions reduced/avoided</li> </ul>

<sup>1</sup> Sun Life, “Sun Life Sustainability Bond Framework”, (2019), at:

[https://cdn.sunlife.com/static/Global/Investors/Sun\\_Life\\_Sustainability\\_Bond\\_Framework\\_March\\_2019\\_FINAL-s.pdf](https://cdn.sunlife.com/static/Global/Investors/Sun_Life_Sustainability_Bond_Framework_March_2019_FINAL-s.pdf)

<sup>2</sup> Sustainalytics, “Sun Life Sustainability Bond Framework Second-Party Opinion”, (2019), at: <https://www.sustainalytics.com/corporate-solutions/sustainable-finance-and-lending/published-projects/project/sun-life/sun-life-sustainability-bond-framework-second-party-opinion/sun-life-financial-sustainability-bond-second-party-opinion-03272019-pdf>

<sup>3</sup> To determine if other hydroelectricity facilities > 25 MW constitute an Eligible Asset, Sun Life will assess the investment relative to Sun Life’s Environmental, Social and Governance (“ESG”) framework. This ESG assessment will include the location, size and any other relevant environmental and social risk factors related to the hydroelectricity facility. Sun Life’s ESG assessment will be subject to review by a qualified third party.

	<ul style="list-style-type: none"> <li>i. Installation of energy efficient heating, ventilation, air conditioning, refrigeration, lighting and electrical equipment</li> <li>ii. Systems for capture and recycling of waste heat such as district heating and heat recovery</li> <li>iii. Projects that improve efficiency in the delivery of bulk energy services such as energy storage, smart grids, demand response</li> <li>iv. Projects that enable monitoring and optimization of the amount and timing of energy consumption such as smart meters, load control systems, sensors or building information systems</li> </ul>	annually (measured in tonnes of CO <sub>2</sub> equivalent)
<b>Green buildings</b>	<p>Investments in new or existing commercial or residential buildings that have received, or expect to receive based on its design, construction and operational plans, certification according to third party verified green building standards, or energy ratings such as:</p> <ul style="list-style-type: none"> <li>i. LEED: Platinum or Gold</li> <li>ii. Other equivalent certification schemes, such as BOMA BEST, ENERGY STAR</li> </ul>	<ul style="list-style-type: none"> <li>• Tonnes of greenhouse gas (GHG) emissions reduced/avoided annually (measured in tonnes of CO<sub>2</sub> equivalent)</li> </ul>
<b>Clean transportation</b>	<p>Investments in sustainable and efficient transit infrastructure including:</p> <ul style="list-style-type: none"> <li>i. Rolling stock, infrastructure and vehicles for fully electric or non-motorized public transport</li> <li>ii. Infrastructure dedicated to mass public transportation</li> </ul>	N/A
<b>Sustainable water management</b>	<p>Investments in facilities and equipment that reduce water consumption or improve the efficiency of resources, including:</p> <ul style="list-style-type: none"> <li>i. Installation of water efficient products or technologies or xeriscaping/drought-tolerant landscaping</li> <li>ii. Projects for collection, treatment, recycling or reuse of water, rainwater or wastewater</li> <li>iii. Infrastructure for flood prevention, flood defense or storm-water management</li> </ul>	<ul style="list-style-type: none"> <li>• Litres of water saved</li> </ul>
<b>Access to essential services</b>	<p>Investments in facilities and equipment that enhance access to public, not-for-profit, free or subsidized essential services including:</p> <ul style="list-style-type: none"> <li>i. Infrastructure for hospitals, laboratories, clinics, healthcare, childcare and elder care centers</li> <li>ii. Infrastructure for the provision of child, youth or adult education and vocational training services</li> </ul>	<ul style="list-style-type: none"> <li>• Number of patient beds financed/supported</li> <li>• Number of families supported</li> </ul>

## Issuing Entity's Responsibility

Sun Life is responsible for providing accurate information and documentation relating to the details of the projects in scope, including description of projects, amounts allocated, and project impact.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Sun Life's Sustainability Bond Use of Proceeds. The work undertaken as part of this engagement included collection of documentation from Sun Life employees and review of documentation to confirm the conformance with the Sun Life Sustainability Bond Framework.

Sustainalytics has relied on the information and the facts presented by Sun Life with respect to the Nominated Projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Sun Life.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

## Conclusion

Based on the limited assurance procedures conducted,<sup>4</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the allocation of the equivalent amount of proceeds from the issuance of the 2019 Sustainability Bond, is not in conformance with the Use of Proceeds and Reporting Criteria outlined in the Sun Life Sustainability Bond Framework. Sun Life has disclosed to Sustainalytics that on March 2<sup>nd</sup>, 2022, the Sustainability Bond Council reviewed all assets financed and confirmed the full allocation of the equivalent amount of the 2019 Sustainability Bond proceeds.

## Detailed Findings

**Table 2: Detailed Findings**

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of the allocation of the equivalent amount of Sun Life's 2019 Sustainability Bond proceeds to eligible projects to determine if they aligned with the Use of Proceeds Criteria outlined in the Sun Life Sustainability Bond Framework and above in Table 1. For a list of projects financed, please refer to Appendix 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the allocation of the equivalent amount of Sun Life's 2019 Sustainability Bond proceeds to projects to determine if the impact of projects was reported in line with the KPIs outlined in the Sun Life Sustainability Bond Framework and above in Table 1. For a list of KPIs reported, please refer to Appendix 2.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

<sup>4</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects in scope, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendices

### Appendix 1: List of Eligible Projects Financed

The table below details the list of financed projects. In 2021, an asset in the Access to Essential Services category was prepaid in full at the borrower's request. This asset was replaced with a class AAA office development located in a downtown core Canadian market that is expected to achieve LEED Gold certification.

Category	Description	Country	Sustainable Investment Description	Value by Asset CAD Million <sup>5</sup>	%
Renewable Energy	Canadian wind farm	Canada	Financing for a wind farm located in Quebec. The project is located on land that is sparsely populated and covered in dense forest.	\$131	17%
Energy Efficiency	Energy improvements to a major public library building	United States	Energy Savings Performance Contract ("ESPC") for energy improvements to a major US library.	\$79	11%
	Eastern US School system	United States	Sole lender to finance Contingent Payment Performance Contract for 17 projects at 29 public schools to improve energy efficiency in a major US public school system	\$21	3%
Green Buildings	LEED Gold building	Canada	Class AAA office tower located in a downtown core Canadian market that is LEED Gold and BOMA Best Platinum Property	\$294	39%
	Development expected to receive LEED Gold	Canada	Class AAA office development located in a downtown core Canadian market that is expected to achieve LEED Gold <sup>6</sup>	\$144	19%
Access to Essential Services	Behavior and mental health center improving access to mental health	United States	Financing for the construction of a behavioral health center focused on mental health in New York City. The healthcare facility seeks to improve mental health and well-being and is run by a non-profit organization, which enhances access to public health services	\$69	9%
	Homeless shelter	United States	Sole lender for a contract monetization through a major US city with a well-established non-profit organization to provide temporary emergency shelter for families experiencing homelessness. Contract enhances access to not-for-profit services, such as job and housing and shelter services	\$13	2%
<b>Total</b>				<b>\$750</b>	<b>100%</b>

<sup>5</sup> Value determined as the value used to carry the asset on Sun Life's balance sheet as of December 31, 2021. For USD assets, foreign exchange rate of 1.263 was used to translate to CAD.

<sup>6</sup> The development is expected to achieve LEED Gold certification, once the project is complete, in the second half of 2022.

## Appendix 2: Impact Reporting by Eligibility Criteria

The table below summarizes the allocated amounts on an aggregate portfolio basis.

Use of proceeds criteria	Number of assets	Value as of December 31, 2021 (CAD Million)	Sun Life Sustainability Bond's share of the project	Impact metric	Projected or Actual <sup>7</sup>	Sun Life's Sustainability Bond Impact
Renewable Energy	1	\$131	24%	Annual GHG emissions reduced or avoided (tonnes of CO <sub>2</sub> )	Actual <sup>8</sup>	26,956
Energy Efficiency	2	\$100	97%		Projected and Actual	47,766
Green Buildings	2	\$438	97%		Actual	123
<b>Sub-Total</b>	<b>5</b>	<b>\$668</b>		<b>Tonnes of CO<sub>2</sub> reduced or avoided</b>		<b>74,845</b>
Access to Essential Services	1	\$69	98%	Available patient beds	Projected	112
	1	\$13	98%	Available shelter apartments	Actual	30
<b>Sub-Total</b>	<b>2</b>	<b>\$82</b>		<b>New Patient Beds and Available Shelter Apartments</b>		<b>142</b>
<b>Total</b>	<b>7</b>	<b>\$750</b>				

<sup>7</sup> Avoided GHG emission of Renewable Energy Projects are estimated by multiplying annual renewable energy production (in MWh) by the carbon dioxide emissions factors (tonnes per MWh). Sun Life used emission factors for Canada from the tool developed by the Canada Energy Regulator. Reduced emission of Green Building Projects and Energy Efficiency Projects are estimated by comparing to local baseline certification level in tonnes of carbon dioxide or percentage of carbon emissions. Impacts of the Access to Essential Services Projects are measured by the number of supported patient beds and available shelter apartments the Projects can reach and the increase in the share of the population that gain access to the services.

<sup>8</sup> Sun Life's share of installed capacity and annual energy generation of this project is 54 Megawatt (MW) and 189,031 Megawatt hour (MWh).

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