

Sun Life – Annual Sustainability Bond Use of Proceeds Report

March 2020

Background

Sun Life issued its first sustainability bond, the \$750 million Series 2019-1 Subordinated Unsecured 2.38% Fixed/Floating Debentures due 2029 (the 'Sustainability Bond') on August 13, 2019. As part of our Sustainability Bond Framework (the 'Framework'), we committed to publishing an annual use of proceeds report. This report presents the allocation of the equivalent amount of Sustainability Bond proceeds by category per the Eligibility Criteria¹ defined in our Framework.

The categories of our Eligibility Criteria are as follows:

- Renewable Energy
- Energy Efficiency;
- Green Buildings;
- Clean Transportation;
- Sustainable Water Management; and
- Access to Essential Services.

Alignment to Sustainability at Sun Life

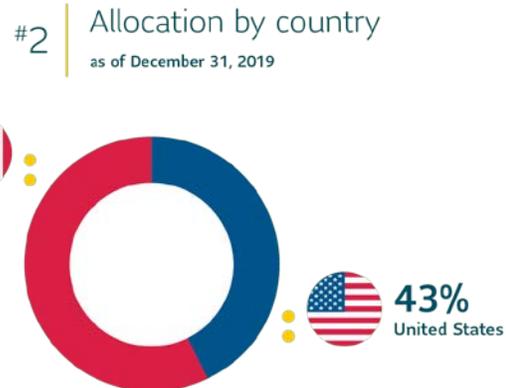
At Sun Life, our Purpose is to help our Clients achieve lifetime financial security and live healthier lives. Our approach to sustainability directly aligns to our business priorities and brings our Purpose to life. Building from our foundation as a trusted and responsible business, we focus on three areas where we have the greatest opportunity to have a positive impact on society, while creating competitive advantage for our business: increasing financial security, fostering healthier lives, and advancing sustainable investing. As part of our focus on sustainable investing, we manage capital with sustainability embedded in our investment processes, and we invest our assets to encourage a low-carbon and more inclusive economy.

Aligned to our Purpose and our sustainability priorities, 29% of the equivalent amount of net proceeds from the issuance of the Sustainability Bond is being allocated to the Access to Essential Services eligible asset category. Assets in this category contribute to the long-term health of communities, directly in line with United Nations Sustainable Development Goal (SDG) 3: Good health and well-being, which seeks to prevent and treat diseases and promote

¹ The Sun Life Sustainability Bond Framework's eligible categories are aligned to the International Capital Market Association's (ICMA's) the Green Bond Principles 2018 (GBP), the Social Bond Principles 2018 (SBP) and the Sustainability Bond Guidelines 2018. Eligible categories for the use of proceeds under GBP include renewable energy, energy efficiency, green buildings, clean transportation, sustainable water management, and access to essential services under SBP.

mental health and well-being. While we contribute directly and indirectly to many of the 17 SDGs, SDG 3 is one where we believe we can have the greatest influence and impact. To learn more about sustainability at Sun Life, please refer to sunlife.com/sustainability.

The charts below summarize the allocated amount by eligible asset category, country and project type (new or existing)².



² Based on the acquisition date of the project, the cutoff date of new and existing projects is August 13, 2019, the date of issuance of the Sustainability Bond.

External Review

As part of selecting the eligible assets for this Sustainability Bond issuance, the assets were reviewed by an independent external party³ to confirm that they met the Eligibility Criteria. The scope of the review included verification and confirmation that:

- i) the selected assets met the Eligibility Criteria, and
- ii) Sun Life has reported on appropriate key performance indicators that aligned to the Eligibility Criteria category of the Framework.

See Appendix A for the Methodology used to develop this report.

Use of Proceeds

The proceeds of the Sustainability Bond have been allocated across four of the eligible categories described above (Renewable Energy, Energy Efficiency, Green Buildings and Access to Essential Services). All assets needed to fund the Sustainability Bond have been allocated and we do not have any remaining proceeds⁴ ⁵. As summarized below, the allocations were consistent with our disclosed Framework that we published in March 2019.

Sustainability Performance and Benefits to Society

The table below summarizes the allocated amounts on an aggregate portfolio basis. Based on Sun Life's share of investment in the projects⁶, we report the share of installed capacity, annual wind energy generation and avoided Greenhouse Gas ("GHG") emission per year. For other Sustainability Bond categories, we have used appropriate metrics for each category and report Sun Life's share of the impact metrics.

³ Sustainalytics, an independent environmental, social, and governance ("ESG") research firm.

⁴ To ensure that we were able to select a diverse set of assets across multiple categories, we did not necessarily include Sun Life's full invested amount on an asset in the Sustainability Bond (i.e., for some assets we only included a portion of our overall investment in this bond issuance and also pro-rated the savings to just the portion allocated to the Sustainability Bond).

⁵ Each year, we will review the assets that are supporting the Sustainability Bond. As is a normal part of our business, fixed income investments may prepay sooner than expected. If this occurs, we will find a suitable substitute investment and report that change as part of the annual reporting of the Sustainability Bond.

⁶ Sun Life's share of investments in the project was based on our debt and equity investments deployed in the projects as a proportion of the projects' total capitalization or fair market value at the time of investment.

Table 1: Use of Proceeds and Impacts

Sun Life Sustainability Bond Criteria	Number of Assets	Value at December 31, 2019 (C\$M)	Sun Life Sustainability Bond's share of the Project	Impact Metric	Projected or Actual	Direct Positive Impact to Society of the Sun Life Sustainability Bond
Renew able Energy	1	\$ 129	24%	Annual GHG emissions reduced or avoided (tonnes of carbon dioxide)	Actual	24,763 (1)
Energy Efficiency	2	\$ 104	97%		Projected and Actual	9,837
Green Buildings	1	\$ 300	97%		Actual	310
Sub-Total	4	\$ 533		Tonnes of Carbon Dioxide Reduced or Avoided		34,910
Access to Essential Services	1	\$ 130	76%	Available patient beds	Actual	93
	1	\$ 73	97%	Available patient beds	Projected	112
	1	\$ 14	97%	Families supported at any one time in shelter	Projected	29
Sub-Total	3	\$ 217		New Patient Beds and Families Supported		234
Total	7	\$ 750				

(1) Sun Life's share of installed capacity and annual energy generation of this project is 54 MegaWatt (MW) and 176,890 MegaWatt hour (MWh), respectively

See Appendix B for a list of assets. Due to provisions in non-disclosure agreements typical for transactions completed in the private markets, we do not disclose the name of individual investments. We do, however, report non-identifying information on the positive impact of each investment to society.

Appendix A – Methodology

The decision on which environmental and social impact metrics to report was informed by the *Harmonized Framework for Impact Reporting*⁷ and *Working Towards a Harmonized Framework for Impact Reporting for Social Bonds*⁸ published by the International Capital Market Association. This framework outlines core principles and performance indicators for impact reporting, including Energy Efficiency and Renewable Energy Projects such as annual GHG emissions reduced/avoided and annual renewable energy generation.

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). We 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 % of carbon emissions. Impact of the Access to Essential Services Projects are measured by number of supported patients beds and families the Projects can reach and/or the increase in the share of the population that gain access to the services.

⁷ International Capital Market Association, Harmonized Framework for Impact Reporting, June 2019
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Handbook-Harmonized-Framework-for-Impact-Reporting-WEB-100619.pdf>

⁸ International Capital Market Association, Working Towards a Harmonized Framework for Impact Reporting for Social Bonds, June 2019
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2019/Framework-for-Social-Bond-Reporting-Final-06-2019-100619.pdf>

Appendix B – Assets Backing Sustainability Bond

C\$M at December 31, 2019								Amount Allocated to Sustainability Bond	
Category	Link to Category	Asset	Description	Acquisition	Maturity Year	Country	Sustainable Investment Description	Value by Asset C\$M (1)	%
Renewable Energy	Investments in facilities and equipment dedicated to generation, transmission and distribution of energy from renewable sources	1	Canadian Wind Farm	22-Dec-17	2042	Canada	Financing for a Wind Farm located in Quebec. The Project is located on land that is sparsely populated and covered in dense forest	\$129	17%
Energy Efficiency	Investments in facilities and equipment that reduce energy consumption or improve the efficiency of resources	2	Energy Improvements to a Major Public Library Building in the United States	15-Oct-19	2039	United States	Energy Savings Performance Contract ("ESPC") for energy improvements to a major US library	\$80	11%
		3	Eastern US School System	30-May-19	2034	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	\$24	3%
Green Buildings	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	4	LEED Gold Building in a Major Canadian City	17-Jul-19	n/a	Canada	Class AAA office tower located in a downtown core Canadian market that is LEED Gold and BOMA Best Platinum Property	\$300	40%
Access to Essential Services	Investments in facilities and equipment that enhance access to public, not-for-profit, free or subsidized essential services	5	Improving access to medical care and mental health services	7-Feb-18	2031	United States	Financing for a medical health center located in the Mid-West which provides medical treatment, mental health services and substance abuse assessment and services for military veterans. The project contributes infrastructure that improves access to public healthcare services	\$130	17%
		6	Behavior and mental health center Improving Access to Mental Health in a Major US City	9-Sep-19	2051	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	\$73	10%
		7	Homeless Shelter, Major US City	28-Aug-19	2049	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, delivering positive social benefits	\$14	2%
Total								\$750	100%

(1) Value determined as the value used to carry the asset on Sun Life's balance sheet as of December 31, 2019. For USD assets, foreign exchange rate of 1.299 was used to translate to CAD. See financial statements for further details by asset type.