rethink.

Rethink the yield of the Sun Par investment account

Sun Life manages the Participating Account assets to achieve our optimal mix of attractive long-term returns and low volatility.

To achieve attractive long-term returns, we:

- **Capitalize** on the strength of our leadership in the area of private fixed income investments,
- **Employ** the global reach of our dedicated real estate investment manager (Bentall Green Oak),
- **Incorporate** both public and private equities to diversify the portfolio, and
- **Manage** the duration and credit selection of our fixed income assets to meet our long-term objectives.

We attribute our success in minimizing the volatility of the dividend scale interest rate (DSIR) to our investment return smoothing methodology. This has helped Sun Life achieve the lowest long-term DSIR standard deviation (volatility) compared to all competing Canadian insurers.[1]

Several indicators can show you the stability and direction of a DSIR:

A low standard deviation is an indicator of DSIR stability: Standard deviation is how we measure the volatility of the DSIR over time. Although past performance does not guarantee future performance, an investment with a lower historical standard deviation indicates greater stability. This is because its returns have been more stable over time. Stability is important because it allows you to have more confidence in the values that you illustrate. Over the past 10 years, the standard deviation of Sun Life's DSIR was just 0.38%.

Government of Canada (GOC) bond rates have been a leading indicator of potential DSIR direction: Due to the significant amount of fixed income assets in all Canadian insurers' Par Accounts, there is a high correlation between their DSIRs and the GOC 10-year bond rate. Generally, a decrease in GOC bond rates is likely to result in a gradual decrease in each insurer's DSIR. Similarly, GOC bond rate increases can result in gradual increases in each insurer's DSIR. However, it's important to note that changes in bond rates are not an indicator of magnitude of changes in the DSIR. This is because other investments also affect the DSIR (such as real estate and equities), we apply a smoothing process to minimize volatility, and we don't value DSIR on a mark-to-market basis.

Insights from each insurer can show where they believe the DSIR is heading and why: This important information helps advisors and their Clients understand the reasoning behind any significant discrepancies between an insurer's actual and projected DSIR movements. At Sun Life, we were the first to provide this information in our Illustrating Dividends article. We believe it is prudent for advisors to provide their Clients with an illustration using multiple scenarios, including current DSIR values minus 1%.

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What about the Par Account investment yield?

The Sun Par market yield calculation incorporates a mark-to-market (current market values) valuation of assets in the fund. However, the 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. Furthermore, 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 reasons why the Sun Par yield should not be used as a predictor for the DSIR.

Correlation doesn't prove a causal relationship between two variables, but it shows how much they move in unison with one another. It's measured on a scale of -1 to +1. A value of -1 means they move in opposite direction. A +1 value means they're completely in sync. A value of 0 means there's no relationship. The Sun Life Par yield and DSIR have a 10-year correlation of -0.06 (using a one year lag in the Par yield). This indicates that there is little value in comparing the Par Account's market yield and the DSIR.

Industry wide, the calculation of disclosed Par yields does not seem to be consistent. There are those that use average book values to determine the fixed income yield, while using mark-to-market values of other assets. Others may disclose a 'smoothed yield', but don't disclose any details on their smoothing methodology.

We hope the information we're providing is both clear and helpful to Clients and advisors looking for a deeper understanding of our Par Account. Contact your Sun Life representative for more information.

The Sun Life Par Account yield and DSIR, and the GOC 10-year bond rate

Year	DSIR	Yield	GOC 10-year bond rate
2012	7.15%	7.86%	2.33%
2013	7.15%	2.41%	2.72%
2014	6.75%	10.96%	2.60%
2015	6.75%	2.56%	2.02%
2016	6.75%	5.32%	1.80%
2017	6.25%	6.00%	2.18%
2018	6.25%	2.65%	2.33%
2019	6.25%	10.27%	1.73%
2020	6.25%	9.10%	1.08%
2021	6.00%	5.80%	1.80%
2022	6.00%		
Average[2]	6.44%	6.29%	2.06%
Lagged[3] value correlation to the DSIR		-0.06	0.68
Current[4] value correlation to the DSIR		-0.17	0.58
Standard deviation[1,2]	0.38%	3.19%	0.48%

1 View our Competitive Edge article about standard deviation of the Par DSIR for more information: https://www.sunlife.ca/slfas/en/life/participating-life-insurance/competitive-edge-standard-deviation/

2 Average and standard deviation calculations for each column incorporate the 10 most recent annual values shown

3 Lagged correlation uses DSIR values from 2013 to 2022 and yield or GOC bond rate values from 2012 to 2021

4 Current correlation uses DSIR and yield or bond rate values from 2012 to 2021

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We help. You grow.