



Par as an asset class
Stability without sacrificing
long-term growth

Disclaimer

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- No one should act upon the examples/information without a thorough examination of the legal/tax situation with their own professional advisors, after the facts of the specific case are considered.

What you'll learn today

Asset allocation and portfolio diversification

Par as an asset class

Case study

Sales and marketing support available

Modern portfolio theory 101

- Introduced in 1952
 - Minimize risk for a given level of return through diversification using different classes of assets
- The goal
 - Selecting investments that optimize risk and return

Asset class performance 2002-2012

Ranking	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
1 st	9%	43%	16%	20%	20%	4%	32%	75%	39%	11%	16%
2 nd	9%	26%	14%	14%	18%	3%	6%	31%	20%	10%	14%
3 rd	4%	21%	10%	7%	17%	2%	3%	29%	20%	8%	12%
4 th	2%	7%	7%	3%	12%	-8%	-8%	8%	9%	2%	4%
5 th	-1%	5%	4%	2%	4%	-9%	-17%	5%	7%	-2%	2%
6 th	-11%	3%	3%	0%	4%	-13%	-31%	2%	2%	-12%	2%
7 th	-21%	-15%	-3%	0%	3%	-17%	-47%	-10%	1%	-14%	2%

Five year GIC	Canadian bonds	US bonds	Global high yield bonds	Canadian small caps	US small caps	Global small caps
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Source: Morningstar Direct and Statistics Canada
Annual returns as of Dec. 31 of the specified year

Traditional asset classes



- Growth isn't always guaranteed
- Some assets pass on less value than expected
- Other assets are unstable
- Recovering lost value is difficult
- Active management is required

Don't put all your eggs in one basket

- Most agree on the primary asset classes
 - Fixed income
 - Equities
 - Cash (GICs)
 - Real estate
- Is there another solution to help diversify?

YES – participating whole life insurance

Life insurance or investments?

Not a fair comparison

- Not designed to replace an investment portfolio
- Protection need must exist
- Use exempt life insurance as an asset class to complement the broader portfolio
 - Diversification
 - Lower volatility
 - Produce comparable asset values
 - Achieve estate objectives

Participating insurance as an asset class

Why it makes sense

	Stocks	Bonds	Cash	Real estate	Par whole life
Predictable & fair returns		√			√
Tax efficiency	√			√	√
Market participation without market correlation					√
History of paying dividends	√				√
Loan privileges				√	√
Guarantees			√		√
Industry stability			√		√
Low maintenance		√	√		√
Estate advantages				√	√
Creditor protection					√

Participating insurance as an asset class

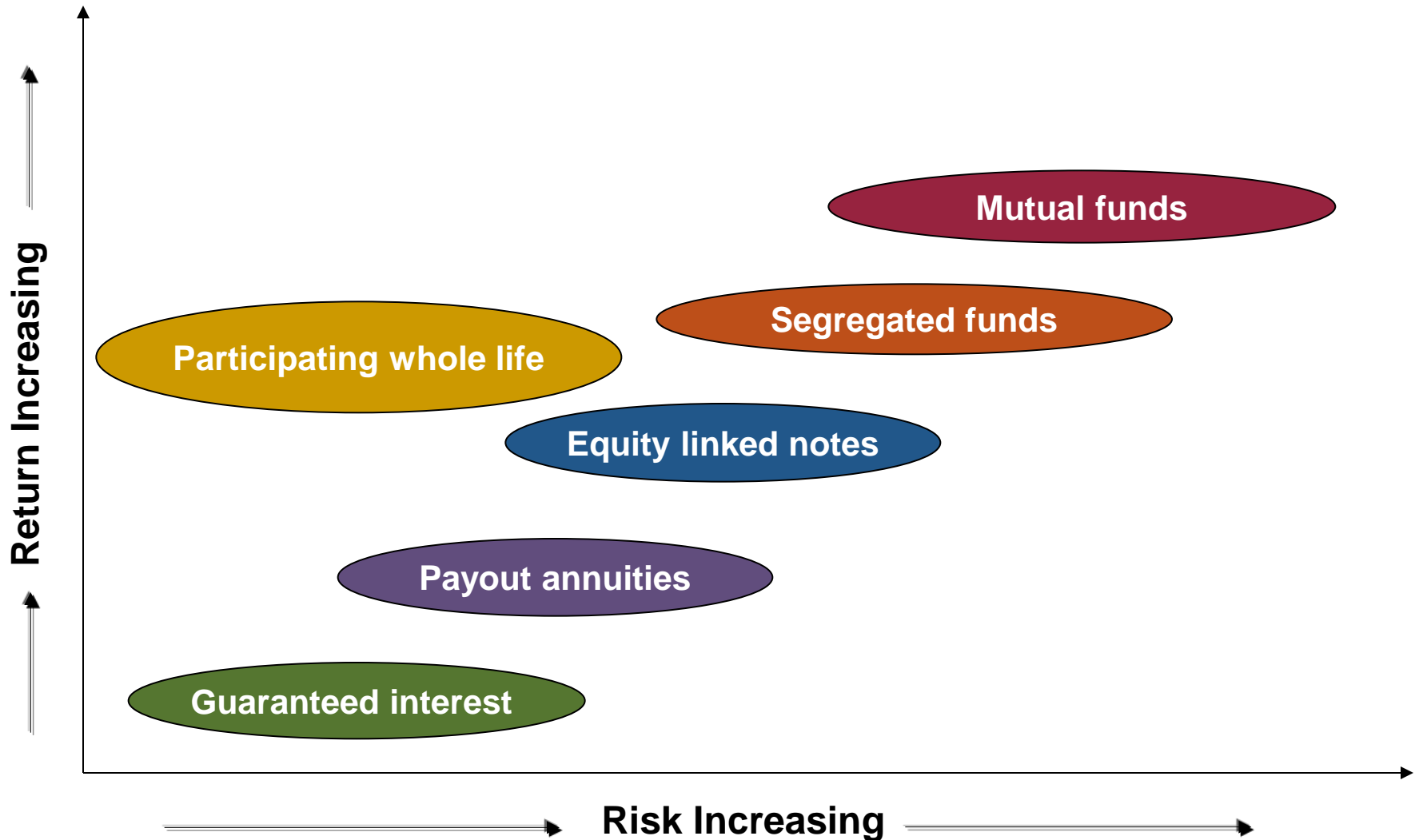
Why it makes even more sense

- Immediate increase in estate value
- Opportunity for self-completion
- Potential for premium offset
- Create an income during one's lifetime

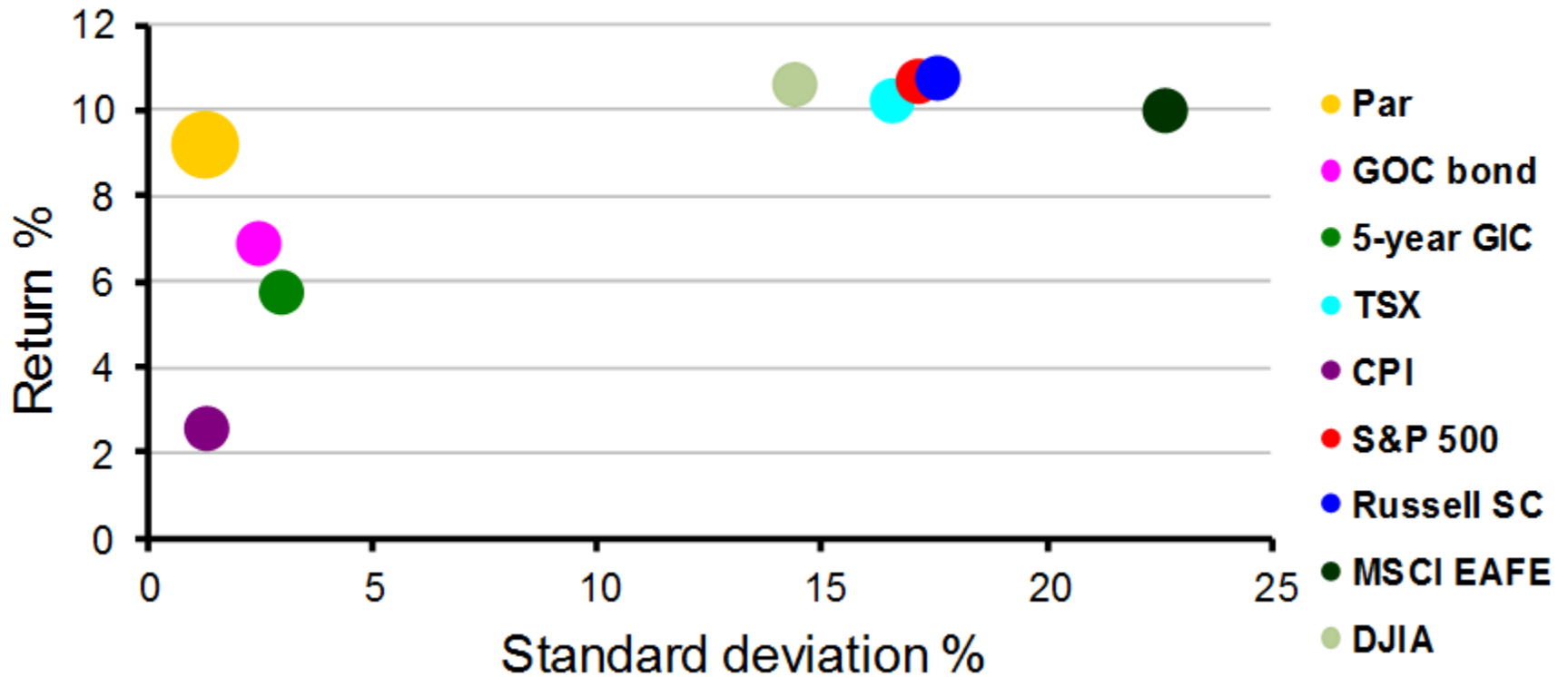


Par as an asset class

The risk / return relationship



Where par fits - risk versus return 1985-2012



*Source: Morningstar Direct, representative market indices

Let's take another look

Includes the dividend scale interest rate

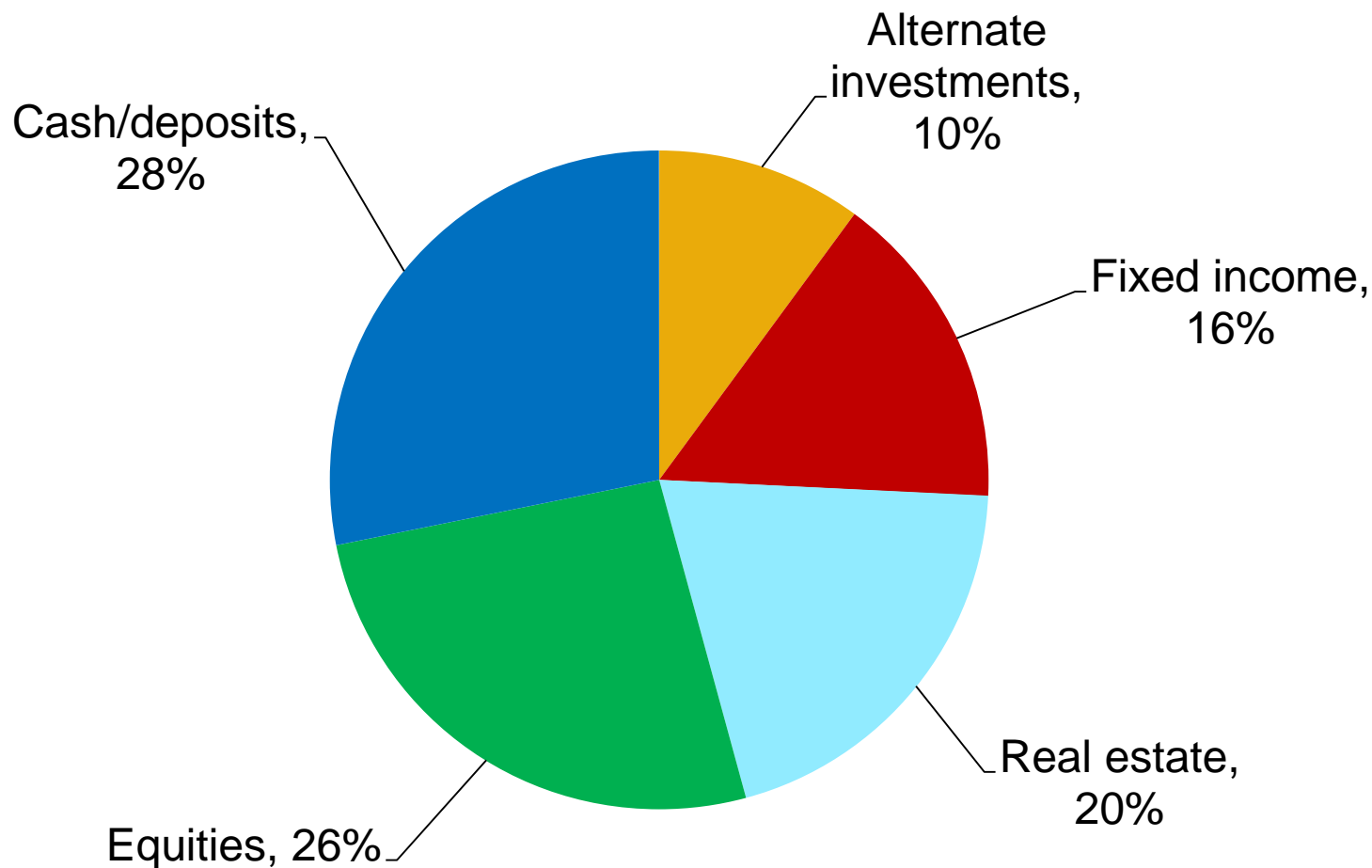
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4 th	4%	8%	8%	7%	12%	2%	3%	8%	9%	7%	7%
5 th	2%	7%	7%	3%	8%	-8%	-8%	8%	7%	2%	4%
6 th	-1%	5%	4%	2%	4%	-9%	-17%	5%	7%	-2%	2%
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Five year GIC	Canadian bonds	US bonds	Global high yield bonds	Canadian small caps	US small caps	Global small caps	Par
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Source: Morningstar Direct and Statistics Canada
Annual returns as of Dec. 31 of the specified year

The typical high net worth portfolio

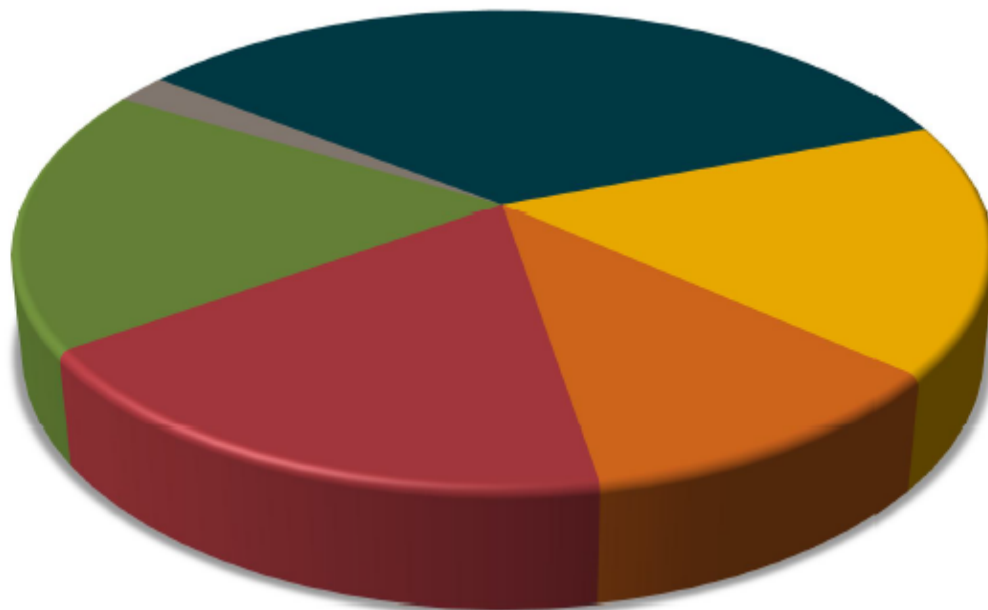
Investable assets >\$1M



The Sun Life Participating Account

Asset allocation

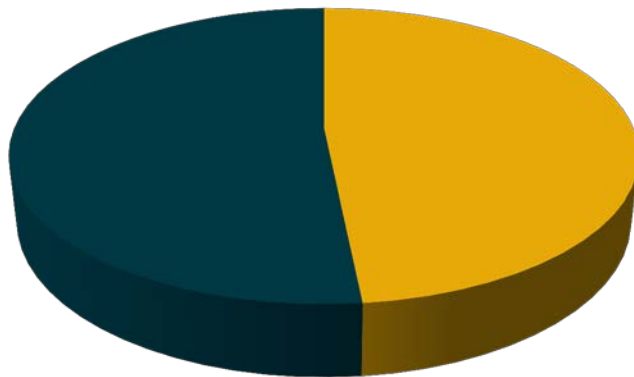
- Two par accounts
 - Over \$18 billion as of December 31, 2013
 - 1.4 million par policyholders
- First dividends were paid in 1877



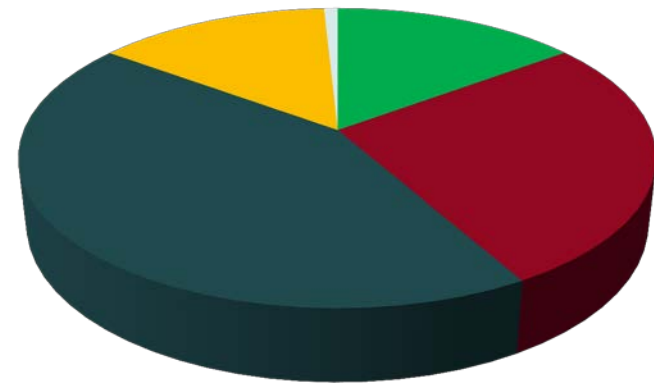
- Cash and Short Term, 2%
- Public Bonds, 34%
- Private Fixed Income, 17%
- Commercial Mortgages, 11%
- Equities, 18%
- Real Estate, 18%

SLF par portfolio - corporate and government bonds*

- High quality, diversified portfolio
- Part of Canadian bond and private fixed income portfolio nearly \$40b



■ Government bond
■ Corporate bonds



■ AAA, 15% ■ AA, 27%
■ A, 43% ■ BBB, 14%
■ BB or less, 1%

* Term to maturity mix roughly equal between less than and greater than 5 years

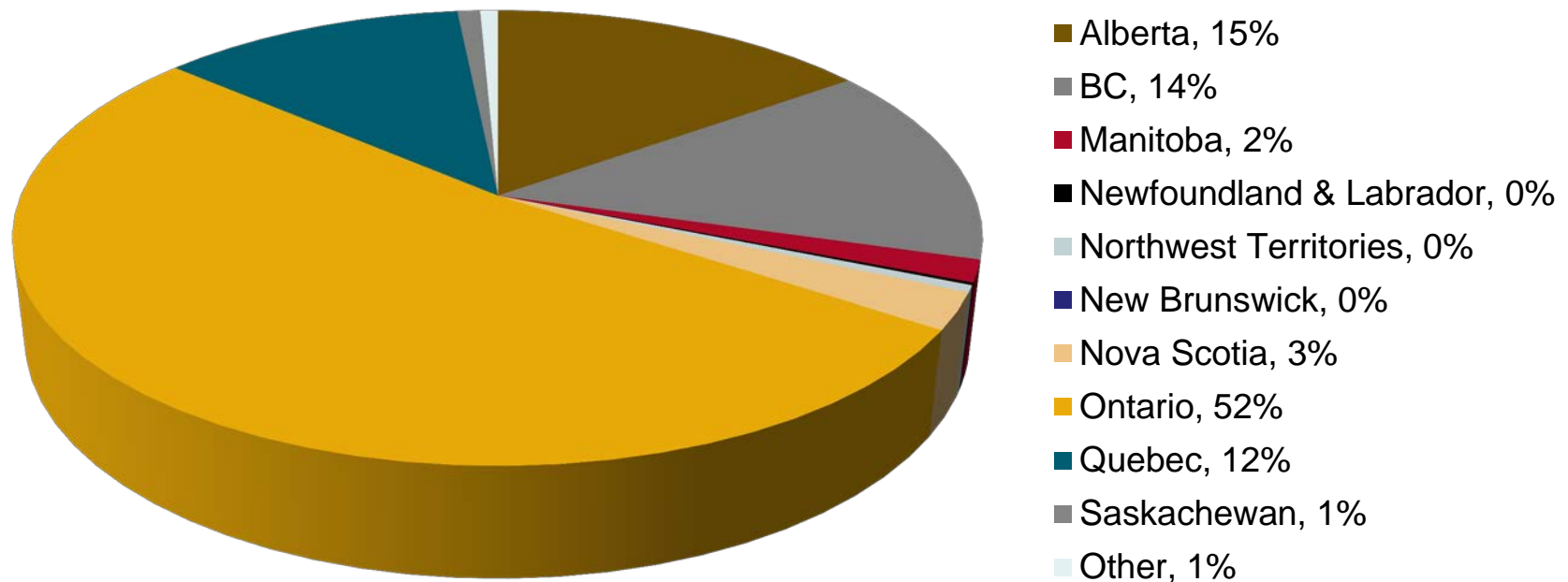
The jewel in the SLF par portfolio – private fixed income

- Lease & project financing and private debt
- Unique to insurance companies and pension funds
- Sun Life has largest PFI shop in Canada
 - 25 professionals.
 - Have achieved 150 to 250 bps above corporate bonds



SLF par portfolio - commercial mortgage holdings*

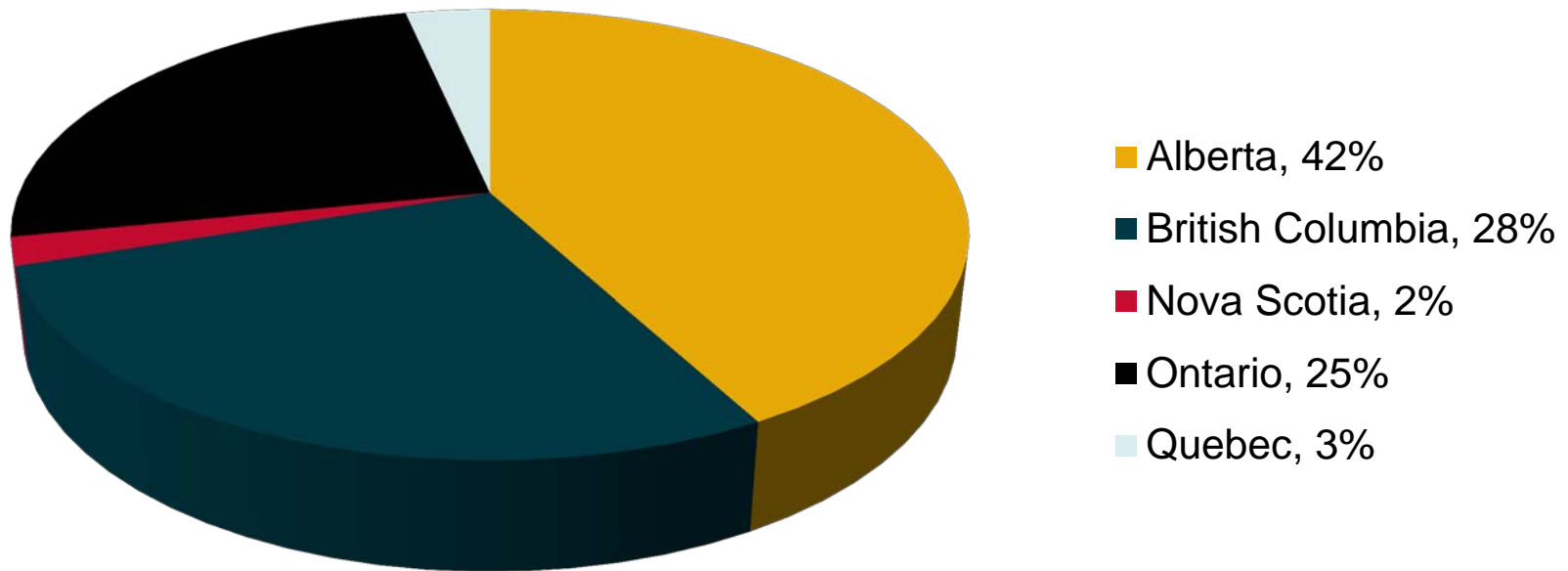
- High quality portfolio diversified by property type and location
- Part of \$7.6b Canadian portfolio



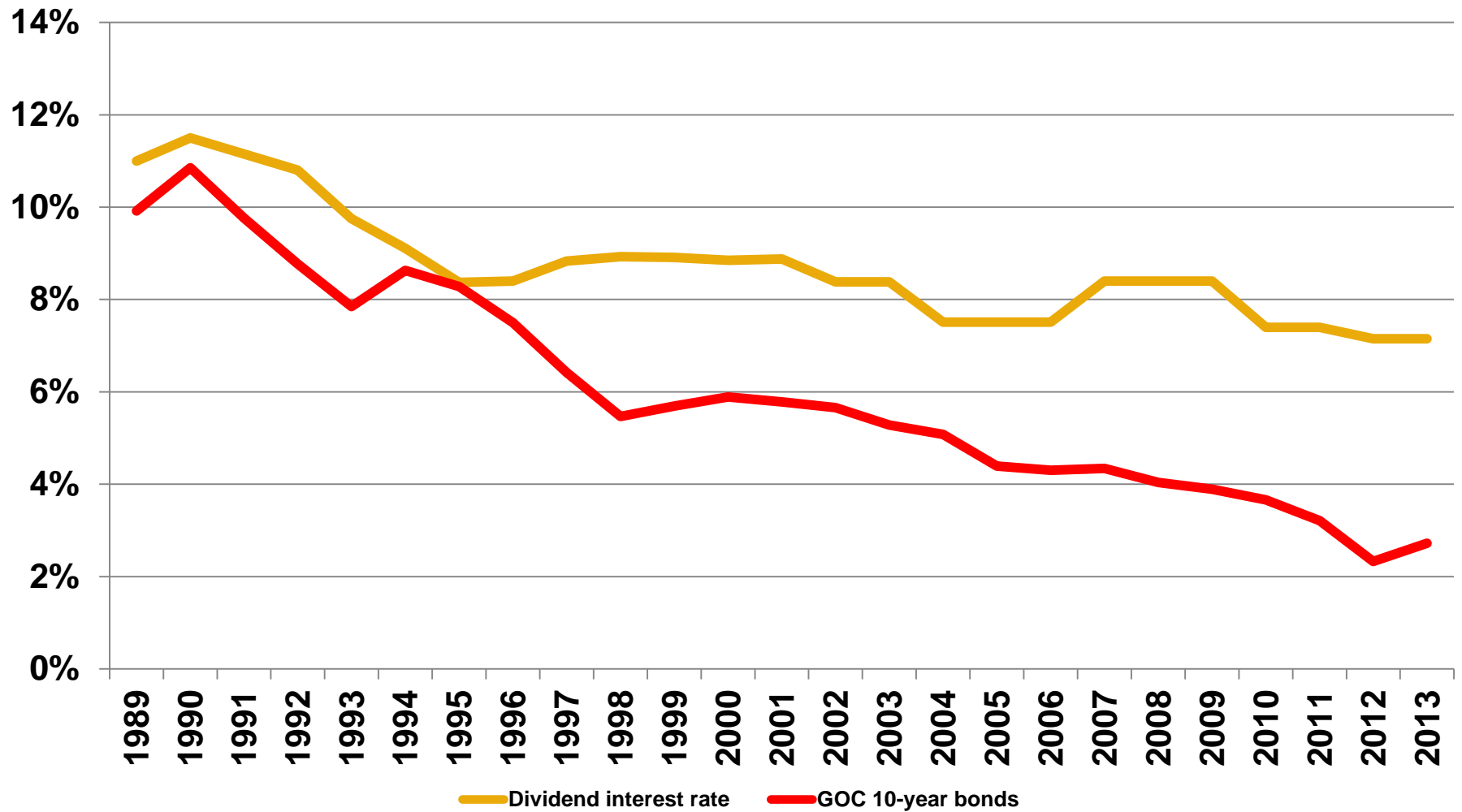
* Term to maturity mix roughly equal between less than and greater than 5 years

SLF par portfolio – commercial real estate holdings

- High quality portfolio diversified by property type and location
- Part of nearly \$4.8b Canadian portfolio



Better than bonds



A look at risk / return

25-year averages at year-end 2013

	Dividend interest rate	10-year GOC bond
Maximum	11.5%	10.9%
Average	8.7%	6.0%
Minimum	7.2%	2.3%
Standard deviation	1.2	2.3

How par helps to reduce volatility

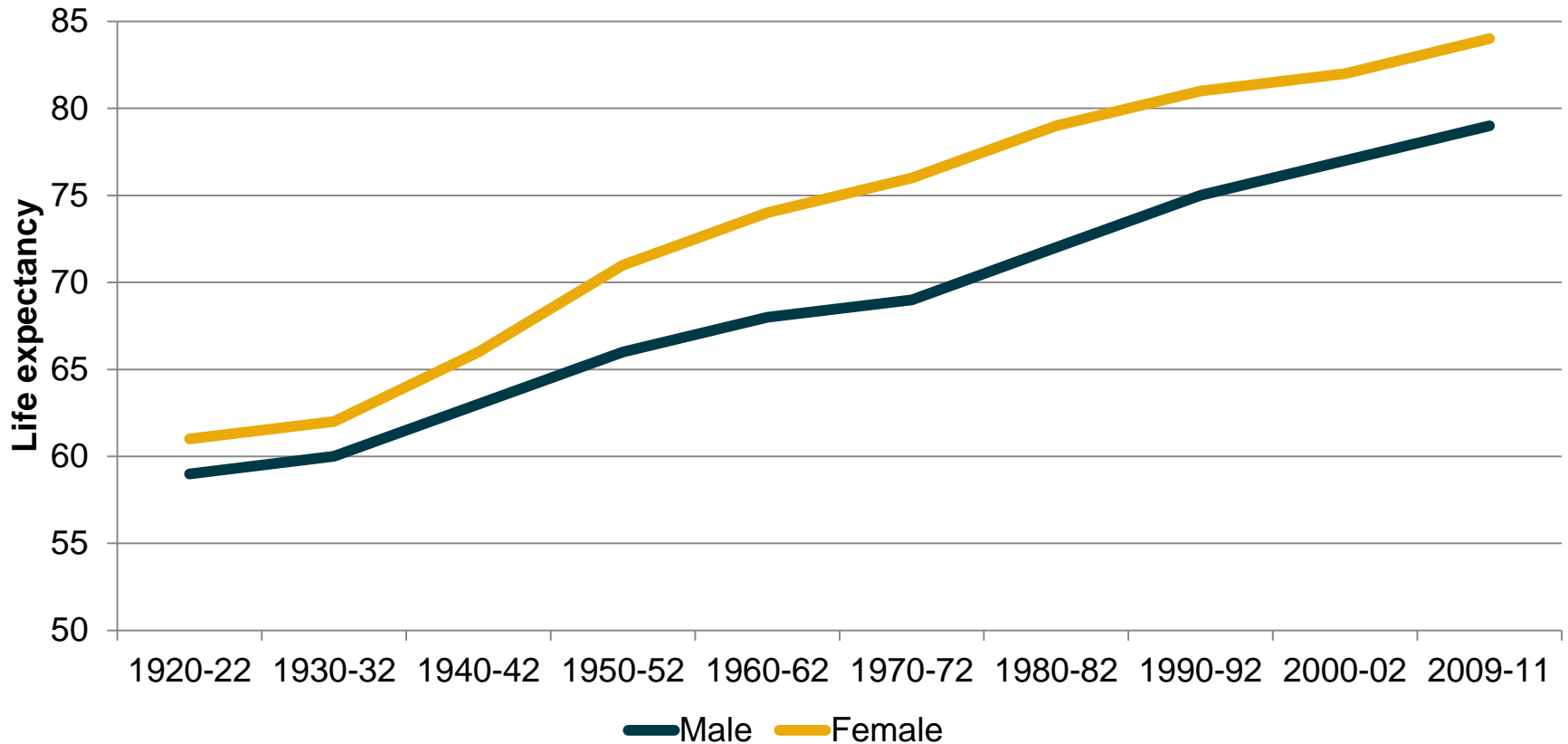
- Mortality experience
- Guaranteed cash values
- Smoothing



How par helps reduce volatility

Mortality, lapse and expense experience

Positive experience offsets interest rate declines



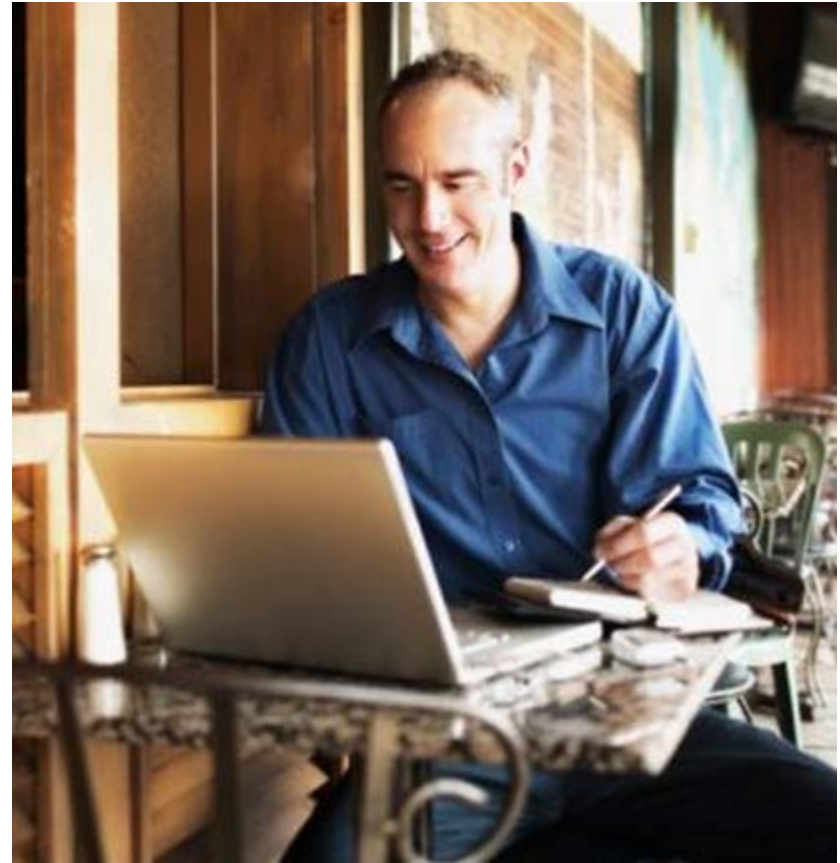
Canada – life expectancy at birth

Source: Statistics Canada

How par helps to reduce volatility

Asset value growth

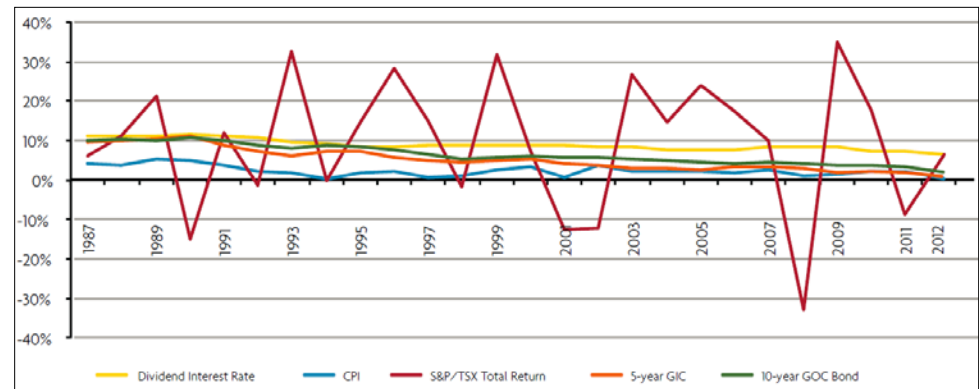
- Guaranteed cash values
- Steady growth in non-guaranteed values (dividends)
- Dividends are not guaranteed but can never be negative
- Once a dividend is credited it cannot be taken away



How par helps to reduce volatility

Smoothing

- Par account returns are “smoothed”
 - Benefit from past strong market performance
 - Pass through experience in a timely and fair way
 - Reflect long-term nature of policyholder interests



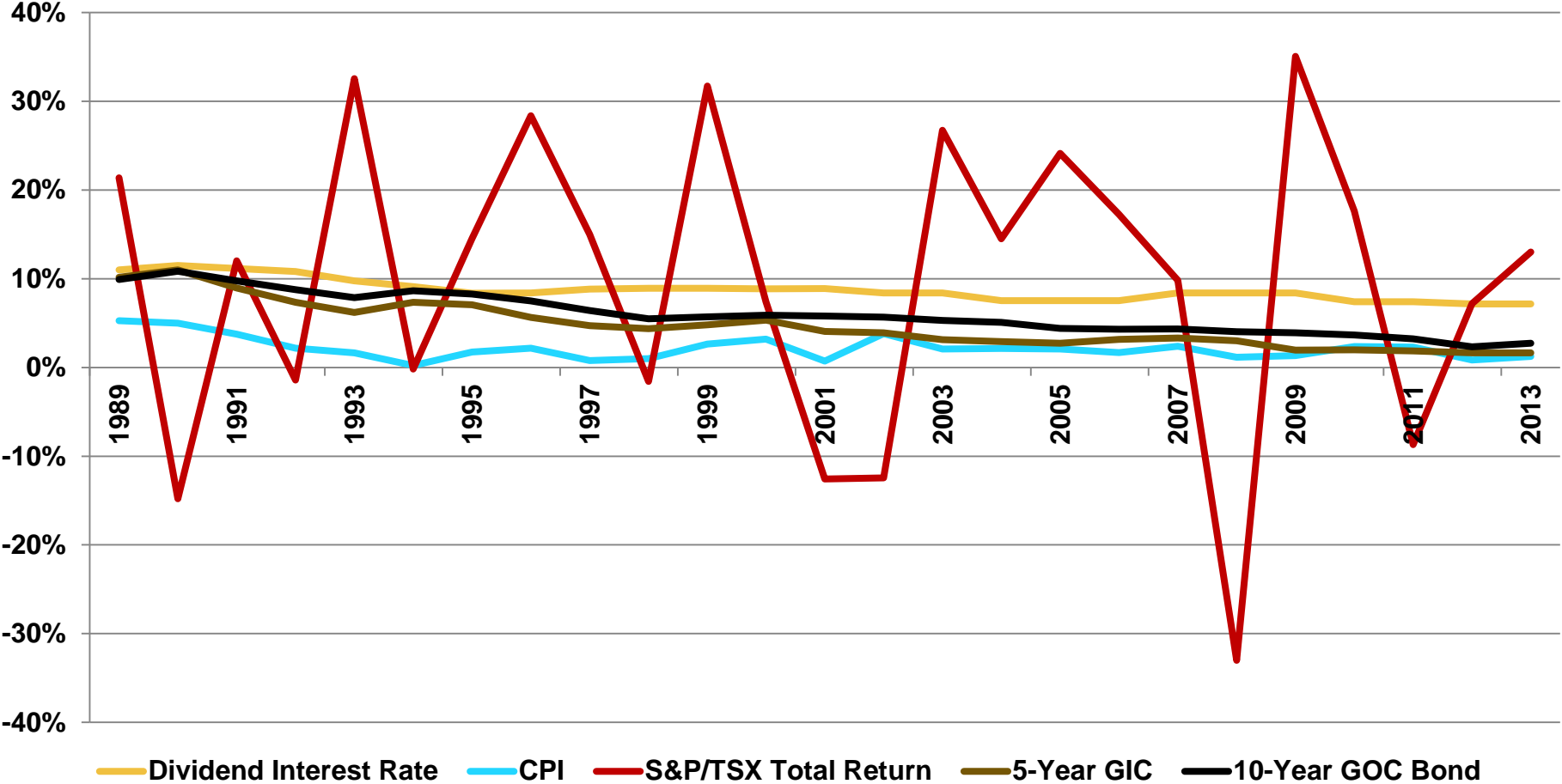
More on smoothing

The benefits of buy and hold

- Par account fixed income assets are purchased for the long-term
 - Interest rate risk reduced
- Smoothing formula only accounts for income and realized gains / losses
- Par account buy and hold strategy means reduced volatility from year to year changes in interest rates

The Sun Life Participating Account

Historical returns



Par as an asset class

The benefits

- Participating life insurance...
 - is a ***legitimate*** asset class...not simply an expense
 - can provide a low volatility alternative to traditionally conservative asset classes
 - offers access to cash value
 - provides low correlation to other assets
 - is more than death benefit protection
 - clients can maximize the advantages of permanent life insurance

Case study – Meet Will



Age	50
Time to retirement	15 years
Total investment assets	\$1,000,000
Goals	<ul style="list-style-type: none">• Diversify asset base• Transfer full value of estate to his children

The challenge

- GICs and conservative investments offers little in the way of returns
- Equities offer returns but are volatile
- Real estate lacks sufficient liquidity
- Estate taxes – how can Will beat the taxman?
- Maintain access to his assets

Create a diversified, stable pool of assets without sacrificing long-term returns

The solution - Sun Par Accumulator

Will purchase a \$750,000 Sun Par Accumulator policy

- Life-pay option with paid up additional insurance
- Total premiums - \$35,930
 - Includes Plus premium payment of \$7,920
- This represents less than 4% of his existing equity portfolio per year
- Payments are made for 15 years (age 65)
 - Then premium offset* (at current dividend scale)

*Offset is eligible after year 15 at current dividend scale minus 1% and minus 2% (not guaranteed)

The results

Asset weightings - portfolio diversification

	GIC / fixed income	Par cash value
Current allocation	100%	0%
Age 55	84%	16%
Age 65	49%	51%
Age 75	44%	56%
Age 85	40%	60%

Total cash values

A closer look at the Sun Par Accumulator solution

Compare Sun Par Accumulator to a GIC / fixed income only portfolio

Age	Sun Par Accumulator and investment	Growth in cash value (prev year)	GIC / fixed income fund investment balance	Growth in cash value (prev year)	Par solution CSV advantage
60	\$1,181,130	2.4%	\$1,177,806	1.7%	0.2%
65	\$1,344,414	2.8%	\$1,278,235	1.7%	5.2%
75	\$1,766,835	2.7%	\$1,505,513	1.7%	17.4%
85	\$2,282,310	2.5%	\$1,773,203	1.7%	28.7%

Based on current dividend scale

Total cash values

A closer look at the Sun Par Accumulator solution

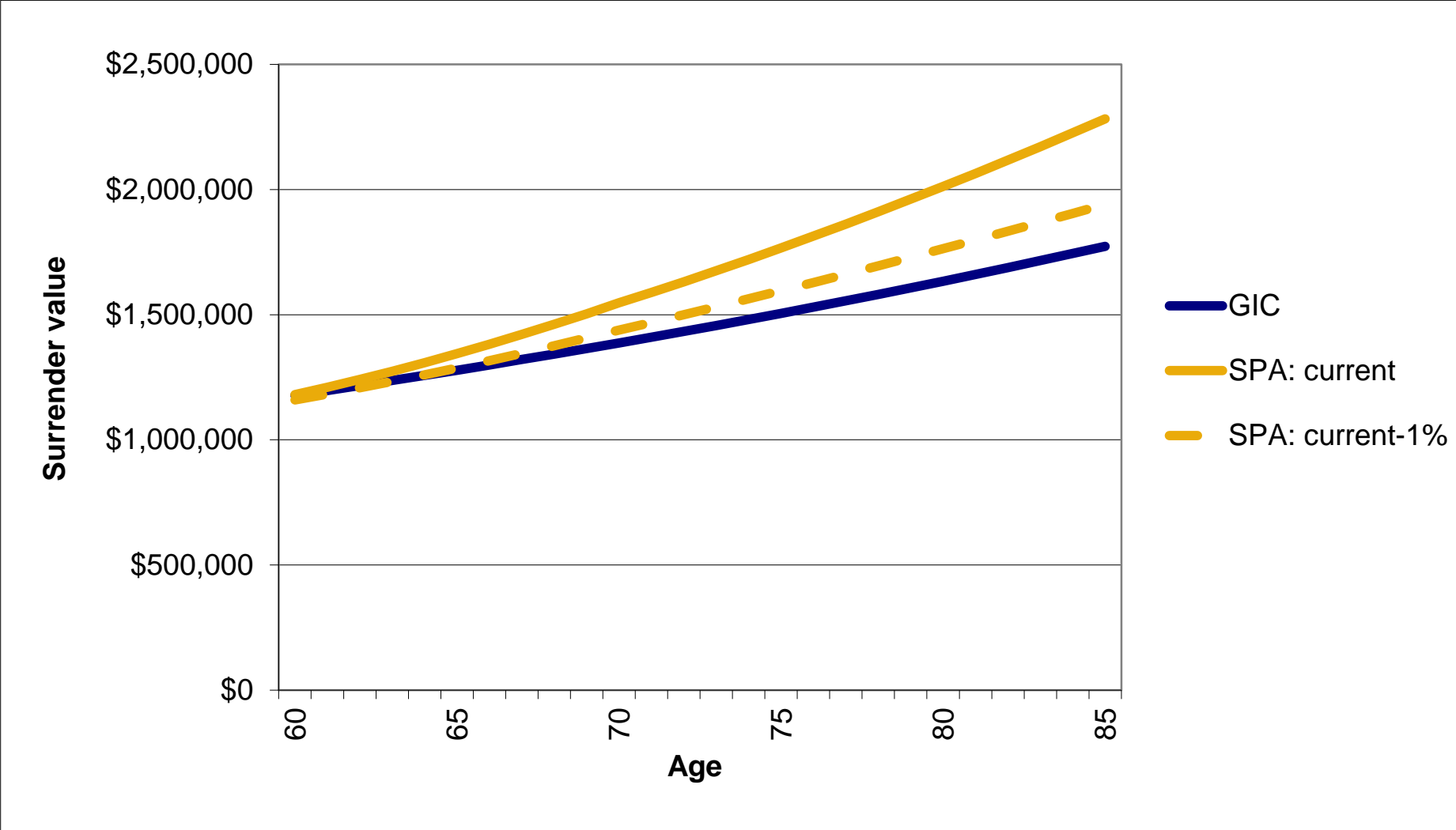
Compare Sun Par Accumulator to a GIC / fixed income only portfolio

Age	Sun Par Accumulator and investment	Growth in cash value (prev year)	GIC / fixed income fund investment balance	Growth in cash value (prev year)	Par solution CSV advantage
60	\$1,167,846	2.1%	\$1,177,806	1.7%	(0.8%)
65	\$1,309,565	2.4%	\$1,278,235	1.7%	2.5%
75	\$1,660,368	2.3%	\$1,505,513	1.7%	10.3%
85	\$2,065,675	2.1%	\$1,773,203	1.7%	16.5%

Based on current dividend scale – 1%

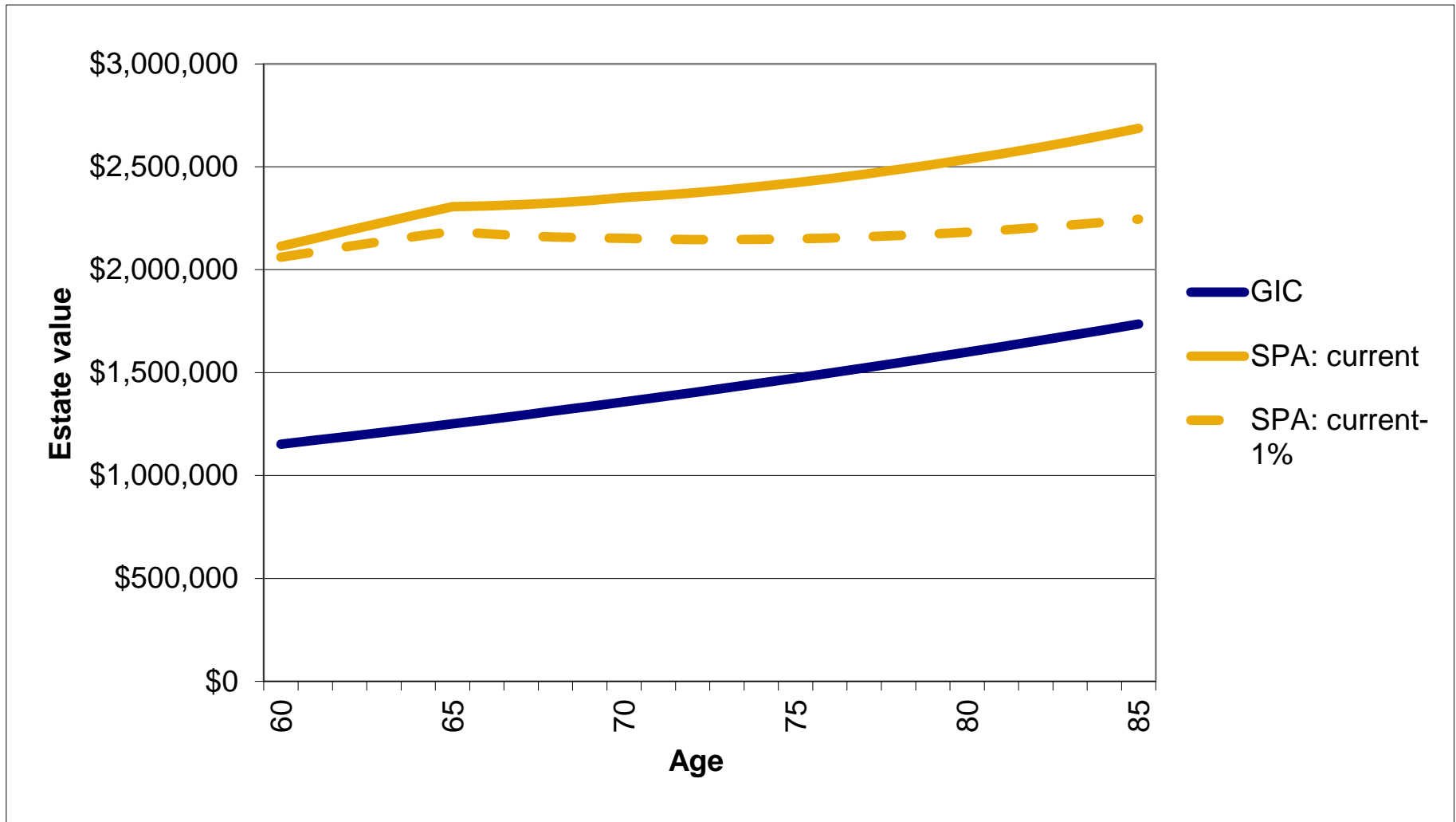
Total cash value comparison

Sun Par Accumulator versus GIC/fixed income



Estate benefit comparison

Sun Par Accumulator versus GIC/fixed income



The results

Will has achieved the following benefits

1. Greater portfolio diversification
2. Access to strong par account performance
3. Access to low volatility of par account
4. Enhanced cash values
 - More options for accessibility
 - Collateral assignment
5. Significant increase in net estate benefit

Case study – Meet Brian



Age	50
Time to retirement	15 years
Total investment assets	\$1,000,000
Goals	<ul style="list-style-type: none">• Diversify asset base• Transfer full value of estate to his children

The challenge

- GICs / conservative investments offer little in the way of returns
- Equities offer returns but are volatile
- Real estate lacks sufficient liquidity
- Estate taxes – how can Brian beat the taxman?
- Maintain accessibility to his assets

Create a diversified, stable pool of assets without sacrificing long-term returns

The solution - Sun Par Protector

- Brian purchases a \$750,000 Sun Par Protector policy
 - Life-pay option with paid up additional insurance
 - Total premiums - \$44,128
 - Includes Plus premium payment of \$18,240
 - This represents less than 5% of his existing equity portfolio per year
 - Payments are made for 15 years (age 65)
 - Then premium offset* (at current dividend scale)
- *Offset is eligible after year 15 at current dividend scale minus 1% and minus 2% (not guaranteed)

The results

Asset weightings - Portfolio diversification

	GIC / fixed income	Par cash value
Current allocation	100%	0%
Age 55	89%	11%
Age 65	42%	58%
Age 75	30%	70%
Age 85	26%	74%

Total cash values

A closer look at the Sun Par Protector solution

Compare Sun Par Protector to a GIC / fixed income only portfolio

Age	Sun Par Protector and investment	Growth in Cash Value (prev year)	GIC / Fixed Income Fund investment balance	Growth in Cash Value (prev year)	PAR solution CSV advantage
60	\$1,029,119	2.3%	\$1,177,806	1.7%	(12.6%)
65	\$1,256,411	4.5%	\$1,278,235	1.7%	(1.7%)
75	\$2,030,169	3.9%	\$1,505,513	1.7%	34.8%
85	\$2,838,547	3.5%	\$1,773,203	1.7%	60.1%

Based on current dividend scale

Total cash values

A closer look at the Sun Par Protector solution

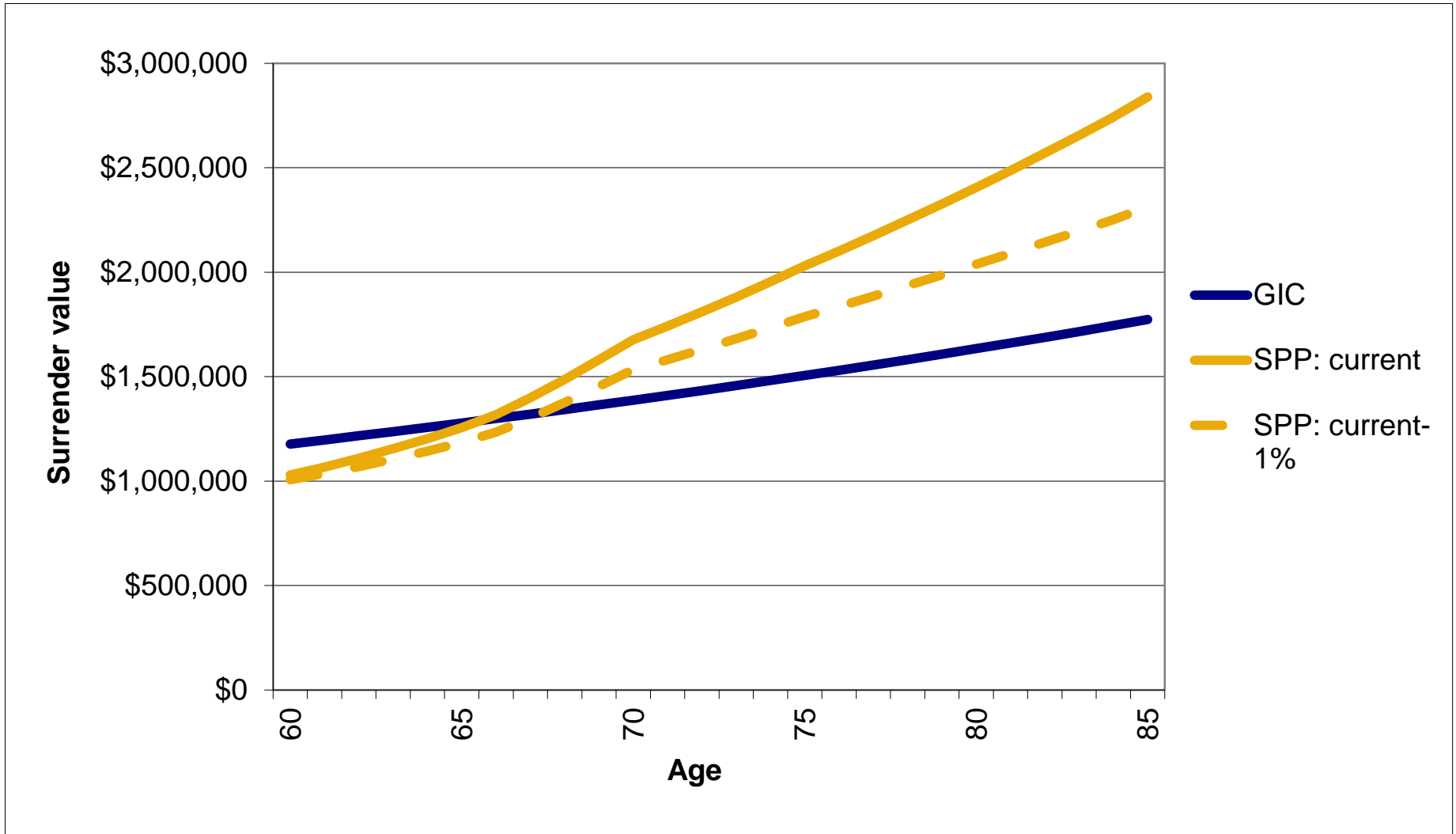
Compare Sun Par Protector to a GIC / fixed income only portfolio

Age	Sun Par Protector and investment	Growth in Cash Value (prev year)	GIC / Fixed Income Fund investment balance	Growth in Cash Value (prev year)	PAR solution CSV advantage
60	\$1,005,988	1.8%	\$1,177,806	1.7%	(14.6%)
65	\$1,185,439	3.7%	\$1,278,235	1.7%	(7.3%)
75	\$1,787,388	3.1%	\$1,505,513	1.7%	18.7%
85	\$2,313,130	2.7%	\$1,773,203	1.7%	30.4%

Based on current dividend scale – 1%

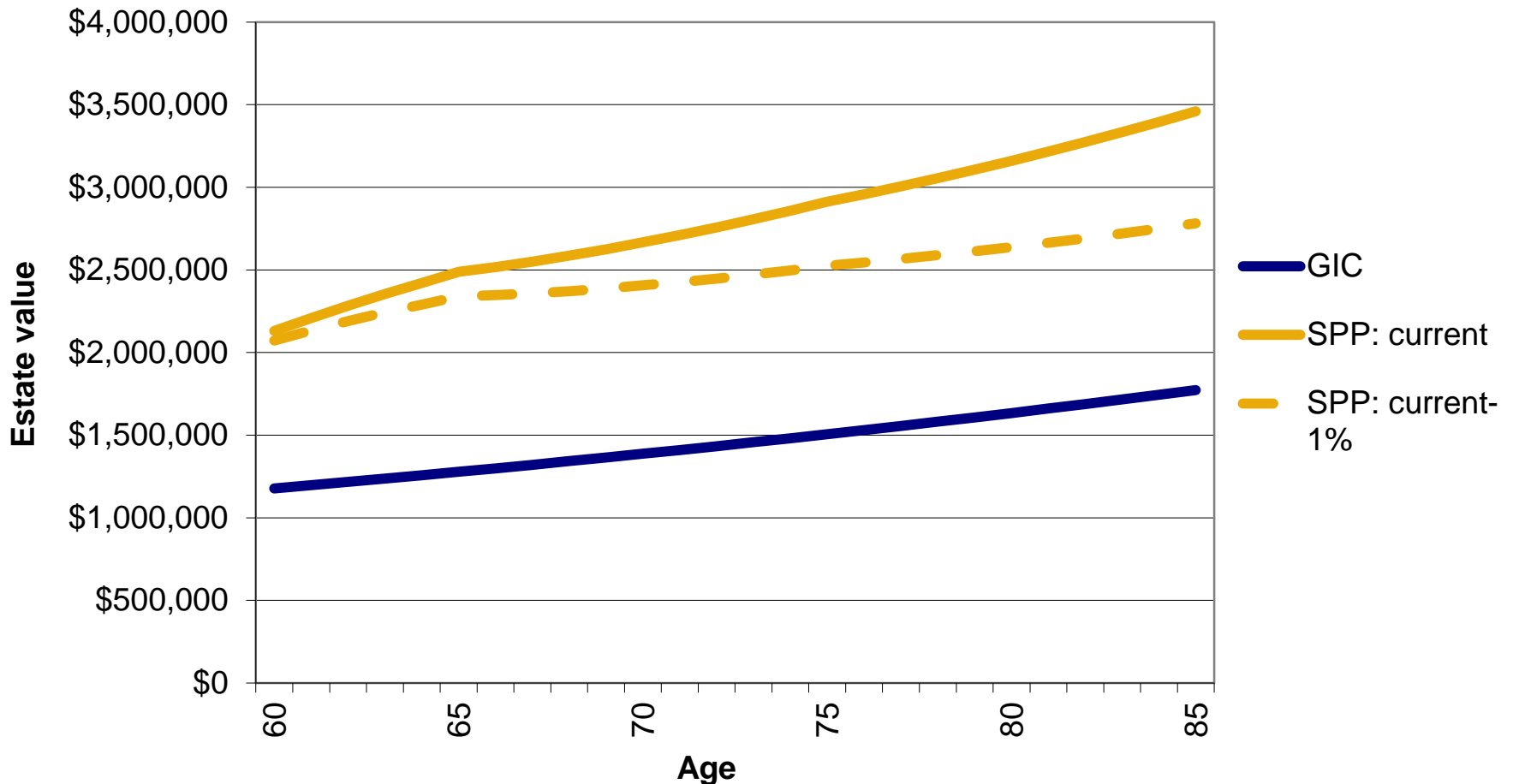
Total cash value comparison

Sun Par Protector versus GIC/fixed income



Estate benefit comparison

Sun Par Protector versus GIC/fixed income



The results

Brian has achieved the following benefits

1. Greater portfolio diversification
2. Access to strong par account performance
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4. Enhanced cash values
 - More options for accessibility
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5. Significant increase in net estate benefit

Par as an asset class

Comparing to traditional assets

Traditional asset classes	Par as an asset class
• Growth isn't always guaranteed	• Cash value growth is guaranteed
• Some assets pass on less value than expected	• As long as premiums are paid a death benefit is guaranteed
• Other assets are unstable	• Dividends provide the opportunity for stable growth
• Recovering lost value is difficult	• Once a dividend is credited it can't be taken away
• Active management is required	• Hands off management

Marketing support



Client and advisor product guides

Sun Life Participating Account

Par as an asset class fact sheet

Who to contact