

# Conflicts of interest disclosure, Canada

Client Focused Reforms, June 30, 2021



## Background

The SLC Management group of institutional investment management companies includes Sun Life Capital Management (Canada) Inc. and (SLC Management). SLC Management is an indirect wholly-owned subsidiary of Sun Life Financial Inc. (Sun Life). SLC Management was established to provide asset management products and services to institutional third parties through funds that invest in various asset classes (Funds), and separately managed accounts that may include liability-driven investment strategies (SMAs). SLC Management provides these products and services to Canadian pension plans and other institutional investors.

SLC Management's principal regulator is the Ontario Securities Commission (OSC). SLC Management is registered as a Portfolio Manager (PM), Investment Funds Manager (IFM), and Exempt Market Dealer (EMD) in all provinces and territories in Canada. SLC Management is also registered as a Commodity Trading Manager (CTM) in Ontario.

Effective June 30, 2021, a series of rules called the Client Focused Reforms will come into force that are designed to improve and safeguard the investor experience. The changes will be implemented through amendments to National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations, which is a key regulation governing some of SLC Management's operations.

Overall, the Client Focused Reforms are focused on enhancing the relationship between Canadian portfolio managers and their clients by ensuring that registrants prioritize the best interests of their clients.

## Identifying and addressing material conflicts of interest

A "conflict of interest" generally may arise where:

- the interests of different parties, such as the interests of a client and those of SLC Management or any of its employees, are inconsistent or divergent;
- SLC Management may be influenced to put its interests ahead of a client's interests; or
- monetary or non-monetary benefits or disadvantages to SLC Management that may compromise the trust that a reasonable client has in SLC Management.

Generally, a conflict of interest is considered material if the conflict may be reasonably expected to influence either a client's decisions or SLC Management or its representatives' recommendations or decisions in the circumstances.

The Client Focused Reforms related to conflicts of interest require SLC Management to:

- (i) identify existing and reasonably foreseeable material conflicts of interest between a client and SLC Management or any individual acting on SLC Management's behalf,
- (ii) address all material conflicts of interest in the best interests of the client,
- (iii) avoid material conflicts of interest that cannot be otherwise addressed in the best interests of the client, and
- (iv) provide affected clients with disclosure of material conflicts of interest at account opening or in a timely manner if they are identified later.

While SLC Management has always maintained a Conflicts of Interest Policy and taken reasonable steps to identify existing material conflicts of interest, we feel that these new enhancements benefit all investors. We encourage all of our clients to read the disclosure below to understand the nature and extent of potential material conflicts of interest, and any potential impact and risks to you.

### **Disclosure of material conflicts of interest**

#### ***1) Conflicts related to our financial interests and the financial interests of our affiliates***

SLC Management and our affiliates, at times, have financial interests in, or relationships with, companies whose securities or related instruments we hold, purchase or sell in our client accounts. Certain of these interests and relationships are material to us or to the Sun Life enterprise. At any time, these interests and relationships could be inconsistent, or in potential or actual conflict, with positions held or actions taken by us on behalf of our client accounts. For example:

- Our affiliates hold public and private debt and equity securities of a large number of issuers. We invest in some of the same issuers for our client accounts, but at different or overlapping levels in the capital structure. For example, a client or affiliate may invest in senior debt obligations of an issuer and another client or affiliate may invest in equity or junior debt obligations of the same issuer (either as subordinated debt or as a last out lender in a unitranche financing). A client or affiliate may also provide equity or debt financing for bids that are competing for the same transaction. As a result, the interests of certain of our clients (i.e., debt holders) may at times be in conflict with the interest of other clients or affiliates (i.e., equity holders or other debt holders), particularly in circumstances where the underlying issuer is facing financial distress or in the case of competing bids.
- We invest in the securities of one or more clients for the accounts of other clients.
- Our affiliates sell various products and/or services to certain companies whose securities we purchase and sell for our clients.

In general, conflicts related to the financial interests described above are addressed by application of our policies and procedures and the fact that we make investment decisions for each client independently considering the best interests of such client.

## **2) Common representatives**

SLC Management and its affiliates may have common directors, officers, employees and agents, including representation by common legal and tax advisers (Common Representatives). As a result, these Common Representatives will have obligations or allegiances to other Sun Life entities that may conflict with their duties to a Fund or SMA. Although the resolution of conflicts of interest will depend on the nature of the conflict and the facts and circumstances of the situation, SLC Management owes a fiduciary obligation to all its clients and will resolve all such conflicts by exercising its judgment in good faith. SLC Management has established policies and procedures to address this conflict.

Certain registered individuals within SLC Management are also registered with other related registrant firms. Under Canadian securities law, we are required to inform our clients if: (a) a registered individual of SLC Management is also a registered individual of another registered firm; and (b) of the policies and procedures adopted by SLC Management to minimize the potential for conflicts of interest that may result therefrom.

## **3) Related issuer or connected issuer of SLC Management**

Potential conflicts may be perceived to arise when SLC Management, as a registrant under Canadian securities legislation and, in Ontario, as a registrant under commodity futures legislation, participates in the distribution of securities of a related or connected issuer.

An issuer of securities is “related” to SLC Management if, through the ownership of, or direction or control over, voting securities, SLC Management exercises a controlling influence over that issuer, or that issuer exercises a controlling influence over SLC Management, or the same third party exercises a controlling influence over SLC Management and the issuer.

An issuer of securities is “connected” to SLC Management if, due to indebtedness or other relationships, a prospective purchaser of securities of the connected issuer might question SLC Management’s independence from the issuer.

Under SLC Management’s Prevention of the Misuse of Material Non-Public Information Policy, SLC Management does not invest, on its own behalf or on the behalf of clients, in securities of Sun Life Financial Inc. unless appropriate exemptive relief has been obtained. SLC Management ensures that disclosure about its related or connected issuers is provided for in the continuous disclosure and offering documents of the Funds as well as, as applicable, in the disclosure that it gives new managed account clients and EMD investors.

## **4) Allocation of investment opportunities**

There are certain asset classes where supply is limited, which may lead to conflicts amongst client portfolios.

To address this potential conflict of interest, SLC Management has adopted a Fairness Policy and Trade Aggregation and Allocation of Orders Policy that is intended to ensure that all client accounts are treated

fairly and equitably over time. Pursuant to these policies, it is not permissible to allocate or re-allocate an order to enhance the performance of one account over another. It is also not permissible to favour any account over another. Our Compliance Department conducts periodic reviews to ensure that allocation decisions are being properly documented.

#### **5) *Proprietary and affiliate products***

SLC Management only offers its own proprietary and affiliate products through its EMD registration. This limits the availability of investment products as SLC Management will only recommend its own or affiliate products through its EMD.

SLC Management endeavours to mitigate the risk of such limited product offerings by clearly documenting how our proprietary products fit within our business model and strategy, clearly outlining that our Funds are only available to Canadian institutional investors and by providing clear disclosure to clients.

#### **6) *Internal compensation arrangements and incentives***

Certain internal compensation arrangements could have the potential to impact SLC Management's recommendation for clients to purchase certain products.

SLC Management has put in place appropriate policies and procedures that address this conflict and specific employees are not directly compensated for a particular sale.

#### **7) *Referral arrangements***

SLC Management engages in certain referral arrangements between it and affiliated advisors because of expanded product opportunities available through SLC Management's affiliates. Referral arrangements can create a conflict whereby SLC Management is incentivized to recommend an affiliated advisor's products. However, before making any such referral, SLC Management works to ensure that any such referrals are suitable for the client. All referral arrangements are designed in such a manner as not to result in additional fees to the client and are clearly disclosed before or at the time the referred services are provided. The compensation for such referrals is consistent with SLC Management's internal compensation structures.

#### **8) *Outside business activities***

From time to time, certain of our employees or officers engage in outside business activities, including outside directorships, that may conflict with their responsibility to SLC Management clients. We could be restricted in trading the securities of certain issuers in client portfolios in the event that an employee or officer, as a result of outside business activity, obtains material, nonpublic information regarding an issuer.

Any outside business activity is subject to reporting pursuant to our Code of Ethics. Actual and potential conflicts of interest are analyzed during the approval process of the outside activity. SLC Management is

also required to report certain outside business interests to regulators and has established procedures that seek to ensure such disclosure occurs.

### **9) Pricing and valuation**

SLC Management is responsible for the valuation and reconciliation of client portfolios to ensure the accuracy of the reporting of account values to its clients; the assessment of fees onto client accounts; and the calculation of account performance reported to its clients. For certain private assets we conduct valuation internally; such internal valuation and pricing creates a potential conflict of interest.

SLC Management mitigates such conflict by calculating all pricing and NAVs in accordance with regulations and any applicable SLC Management organizational documents.

### **10) Conflicts related to investment consultants**

SLC Management maintains a number of relationships with external investment consultants, which may lead to SLC Management obtaining clients through such relationships. A potential conflict may arise when there are competing interests between a consultant and a client, or if a client decides to no longer use a particular consultant.

Many of our clients and prospective clients retain investment consultants (including discretionary investment managers and OCIO providers) to advise them on the selection and review of investment managers (including with respect to the selection of investment funds). We have dealings with these investment consultants in their roles as discretionary managers or non-discretionary advisers to their clients. We also have independent business relationships with investment consultants.

- We provide investment consultants with information about accounts that we manage for their clients (and similarly, we provide information about funds in which such clients are invested), in each case pursuant to authorization from the applicable client. We also provide information regarding our investment strategies to investment consultants, who use that information in connection with searches that they conduct for their clients. We often respond to requests for proposals in connection with those searches.

Other interactions we have with investment consultants include the following:

- from time to time, we invite investment consultants to events or other entertainment hosted by us;
- we purchase software applications, market data, access to databases, technology services and other products or services from certain investment consultants; and
- we subscribe to forums, news updates and conferences organized by investment consultants.

SLC Management will provide a client with information about its relationship with a client's investment consultant upon request. In general, we rely on the investment consultant to make the appropriate disclosure to its clients of any conflict that the investment consultant believes to exist due to its business relationships with us.