Short-term Trading Policy Q&A

On January 1, 2005, Sun Life Financial implemented a short-term trading policy to protect all unitholders. Short-term trading practices offset long-term investment strategies, which are the most effective strategies for retirement savings, and are often the reason why plan sponsors establish retirement plans for their employees.

To help you better understand Sun Life Financial's short-term trading policy and what it will mean to you as a plan member, we have put together this question and answer document.

1. What is the short-term trading policy?
Sun Life Financial is defining short-term trading as follows:

- A plan member initiates an inter-fund transfer *into* a segregated fund followed by an inter-fund transfer *out* of the same segregated fund **within 30 calendar days**.
- A plan member who practices short-term trading is attempting to invest or divest in advance of market trends (i.e. time the market) and is hoping to increase the return to his/her account.

A plan member who performs transactions that meet the short-term trading criteria will be charged a two per cent fee.

It's important to note that the fee will not apply to:

- Guaranteed Investment Accounts (GIA), directly held stock and money market fund transactions (see example in question 7).
- Deposits or withdrawals.
- Automatic, scheduled interfund transfers such as maturity transactions and automatic asset mix rebalancing.

In the event that a plan member continues to engage in short-term trading we retain the right to take further action, which may include delaying the member's trades and restricting the member's ability to conduct interfund transfers on the Plan Member Services website.

Subject to materiality, the policy will be applied to all trades that fall within the short-term trading policy.

The materiality level we will be using will be based on experience and may vary over time.

Please Note: *The same fund may be offered in different plans within your account (i.e. your RRSP, DCPP and Non-registered Savings Plan). The short-term trading policy applies to inter-fund transfers in and out of a segregated fund, regardless of which plan that segregated fund is offered in. For example, an inter-fund transfer into a segregated fund within your RRSP, followed by an inter-fund transfer out of the same fund within your DCPP within 30 calendar days, is defined as short-term trading.*

Sun Life Financial

2. Why are we implementing a short-term trading policy?
While less than **1/2 of one per cent (annually)** of our plan members practice short-term trading, the practice can still affect the long-term investor in the following ways:

- Administrative and transaction costs are applied to the fund each time a plan member buys or sells fund units. Plan members performing multiple interfund transfers between two funds are increasing the administrative costs and are potentially lowering the fund returns for all investors within the funds.
- Any activity that reduces the overall potential return of the fund will reduce plan member account values and may lead to a shortfall in retirement account expectations. Lowering retirement account expectations may lead to the plan sponsor's governance activities being called into question and may create financial exposure.

We take our product and fund design responsibilities seriously, and therefore, in the best interest of our plan sponsors and you, their plan members, we have created our short-term trading policy to guard against the possible negative effects of short-term trading.

3. What happens to the two per cent fee?
The money is returned to the affected segregated fund to help compensate for the potential **losses** that may occur due to the short-term trading activity. Sun Life Financial does not benefit from the collection of these fees.

4. When did the policy come into effect?
Our short-term trading policy came into effect January 1, 2005.

5. Why has Sun Life Financial chosen 30 calendar days to define short-term trading?
At this time, the industry has not agreed on a timeframe for defining short-term trading. For example, in Canada some mutual fund companies use a 90 day short-term trading timeline for their policy while in the US some are using shorter times, such as five days. Our Steering Committee, who developed the policy, decided that 30 calendar days allows members to perform a reasonable number of trades while still addressing excessive trading, given that group plans are designed for long-term savings.

6. How are the 30 calendar days calculated?
The 30 calendar days are calculated in the following manner. The first day an amount is transferred into a fund is not included in the 30 day calculation. Rather, the transfer in amount needs to be held in the fund overnight to be counted as day one.

For example, if an amount is transferred into a fund on April 19th, the first day of the 30 calendar day calculation takes effect April 20th. April 21st is calculated as day 2, and so on. In this example, May 19th is calculated as day 30. Therefore, any transfers out of the fund between April 20th and May 19th are defined as short-term trading, and subject to the 2 per cent short-term trading penalty. A transfer out of the fund on May 20th is not subject to the 2 per cent penalty, as May 20th is calculated as day 31, and falls outside of the 30 calendar day calculation.

7. How is the two per cent fee calculated?
The fee is calculated based on two per cent of the transfer out amount, up to the transfer in amount **within 30 calendar days**. For example:

Example 1

Feb. 25, 2005 – transfer in CDN Equity	\$ 8,000		
Mar. 20, 2005 – transfer out of CDN Equity	\$ 5,000	2% penalty on \$ 5,000	- \$100 CDN Equity

This transaction results in the two per cent penalty on the transfer out amount of \$5,000, which took place within 30 calendar days of the transfer in date.

Example 2
Plan member has an existing balance in the CDN Equity Fund.

Mar. 25, 2005 – transfer in CDN Equity	$ 5,000		
Mar. 26, 2005 – transfer out of CDN Equity	$ 6,000	2% penalty on $ 5,000	- $100 CDN Equity

This transaction results in the two per cent penalty only on $5,000 of the transfer out amount because that was the amount transferred in within 30 calendar days.

Example 3

May 1, 2005 - transfer in CDN Equity	$10,000		
May 5, 2005 – transfer in CDN Equity	$15,000		
June 3, 2005 – transfer out of CDN Equity	$15,000	2% penalty on $15,000	- $300 CDN Equity

This transaction results in the two per cent penalty on the transfer out amount of $15,000, which took place within 30 calendar days *of the May 5, 2005 transaction*. The May 1 transaction into the CDN Equity Fund is not subject to the penalty as it occurred more than 30 days before the June 3 transfer out of the CDN Equity Fund.

Example 4
Plan member has an existing balance in the CDN Equity Fund.

Feb. 25, 2005 – transfer in CDN Equity	$13,000		
Feb. 29, 2005 – transfer out of CDN Equity	$ 7,500	2% penalty on $ 7,500	- $150 CDN Equity

As the penalty is applied to the lesser of the amount transferred in to the fund and the amount transferred out, there is still $5,500 of the original transfer in amount of $13,000 to which penalties may still be applied ($13,000 - $7,500) if it is transferred out within 30 calendar days of the transfer-in date of Feb. 25, 2005.

Mar. 5, 2005 – transfer out of CDN Equity	$ 8,000	2% penalty on $ 5,500	- $110 CDN Equity

This transaction results in the two per cent penalty only on the $5,500 remaining of the original transfer in amount of $13,000.

Mar. 8, 2005 – transfer out of CDN Equity	$ 6,000	no penalty

This transaction does not result in a penalty as the amount has been in the fund for more than 30 calendar days, and all transfers into the fund with 30 calendar days have been penalized accordingly.

Mar. 10, 2005 – transfer in CDN Equity	$15,000

No penalty applies as this is simply a transfer in.

8. What if I transfer funds from a Money Market fund, Guaranteed Investment Account or directly held stock fund into a fund that the short-term trading policy applies to, within the 30 calendar day rule?

Our policy determines that the penalty is applicable to the fund out of which money is transferred if money had been transferred into that same fund in the previous 30 calendar days. Furthermore, certain funds (see question 13) are exempt from the application of the policy. Please see the two examples below."

This type of trade, while it involves a Money Market fund, Guaranteed Investment Account or Directly Held Stock, could be subject to the short-term trading policy's two **per cent** penalty. For example:

Example 1

May 1, 2005 – CDN Equity to Money Market	$10,000
May 3, 2005 – Money Market to Bond Fund	$10,000

This transaction does not result in a penalty as the amount was transferred in and out of the Money Market fund, only, within 30 calendar days – the Money Market is excluded from the Short-term Trading Policy.

Example 2

May 1, 2005 – Money Market to CDN Equity $ 5,000

May 3, 2005 – CDN Equity to Money Market $ 5,000 2% penalty on $ 5,000 (transfer in amount) -$100

This transaction results in the two per cent penalty as the amount was transferred in and out of a CDN Equity fund within 30 calendar days – the CDN Equity Fund is subject to the Short-term Trading Policy.

9. Why did you choose two per cent as the fee?

This is the fee commonly charged in the Canadian and US industry when a short-term trading policy is in place.

10. Will plan members know immediately if they are performing a short-term trade?

No. Plan members are responsible for determining if they have or are making a short-term trade as defined within the policy. A warning message will appear on the Plan Member Services website which will remind plan members that the policy is in place.

We will send the plan member a notice informing them that they have performed a short-term trading transaction and that subsequently, their account has been charged a two per cent fee.

11. Does the short-term trading policy include maturities, asset mix re-balancing, deposits or withdrawals?

No. The policy only includes member initiated inter-fund transfers. In the situations mentioned above, the member is not necessarily consciously deciding to perform a short-term trade.

12. Why are directly held stocks, GIAs, and Money Market funds excluded from the policy?

For Directly Held Stocks, the member receives the exact price at which we have bought or sold the stock, which means the trade does not impact other members who hold the stock in their plan.

As GIAs are not funds their activity does not impact other members.

We will not apply the penalty to Money Market funds as they are often used as an amalgamation point before performing a transfer or rebalance. They do not incur the same trading costs within the fund, so frequent transfers in and out do not impact the other members in the fund.

13. Do other financial firms have short-term trading policies in place?

Yes, quite a number of mutual fund companies have similar policies in place. Additionally, both Canadian and US regulators are examining the possibility of requiring that all financial firms put a short-term trading policy in place.