Sun Life Granite Balanced Portfolio SERIES A

FUND REVIEW Q1, 2018 | Opinions as of April 5, 2018

CATEGORY[1]
Global Neutral Balanced

MANAGEMENT COMPANY
Sun Life Global Investments (Canada) Inc.

INCEPTION DATE
January 17, 2012

PORTFOLIO MANAGERS
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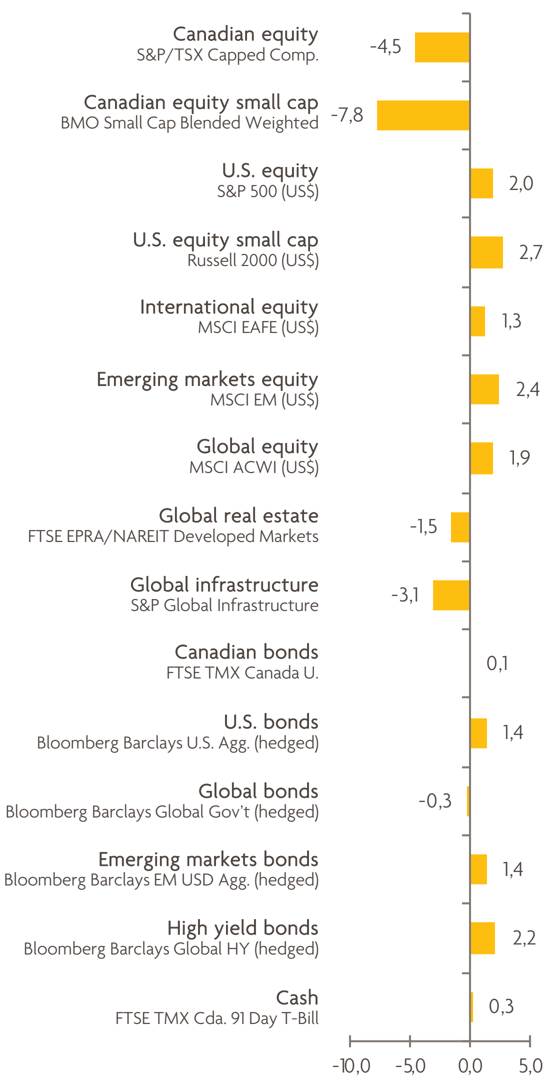
HIGHLIGHTS

- Sun Life Granite Balanced Portfolio was down 0.6% in Q1
- Extreme volatility hindered returns
- Increased equity exposure
- Underweighted bonds overall, but maintained overweight position in Canadian bonds
- Maintained moderate underweight to the Canadian versus U.S. dollar

[1] Mutual fund categories are maintained by the Canadian Investment Funds Standards Committee (CIFSC).

MARKET RETURNS



Source: Bloomberg. Data as of March 31, 2018.
Total return in C$ or as indicated.

OUTLOOK

After experiencing exceptionally low volatility in 2017, equity markets have turned volatile and investors should brace for a rockier ride this year. However, with strong economic growth globally we continue to remain slightly bullish on equities in general. But the months of record-low volatility we experienced last year are now clearly behind us.

In the U.S., tax cuts have boosted consumer confidence and that should help keep the economy growing. Although we may see two or three more rate hikes by the U.S. Federal Reserve this year, it should not slow growth drastically and we remain slightly bullish on U.S. equities.

In Canada, we have started to see risks to growth emerge. For one, housing sales are slowing and consumers may follow suit by reducing their spending. Furthermore, NAFTA is a big question mark and until its future is resolved, business investment could deteriorate. As a result, while we are positive on the Canadian energy sector, we are pessimistic on the broader market.

Canadian and U.S. bond yields should continue moving higher throughout 2018, which would be a negative for bonds. That said, with the increased volatility we're experiencing, bonds still serve a valuable purpose inside portfolios.

PORTFOLIO REVIEW

Sun Life Granite Balanced Portfolio returns were down 0.6% in Q1.

In Q1, returns were hindered by extreme market volatility, with the S&P 500 falling by more than 10% at one point.

Both bonds and equities underperformed on the quarter. Bonds retreated when interest rates spiked, and later slowly recovered as the quarter progressed.

On the equity side, despite our underweight position, a 4.5% drop in the Canadian equity market weighed heavily on the portfolio.

However, our overweight position in U.S. and emerging market equities benefitted from strong underlying fundamentals and was positive on the quarter.

Our moderate underweight to the Canadian versus U.S. dollar also proved to be an advantage with the prospect of NAFTA being terminated and interest rates rising in the U.S., leading to a falling loonie.

And, in a rising-interest-rate environment, the portfolio's underweight exposure to interest-rate-sensitive real estate and infrastructure equities also helped returns.

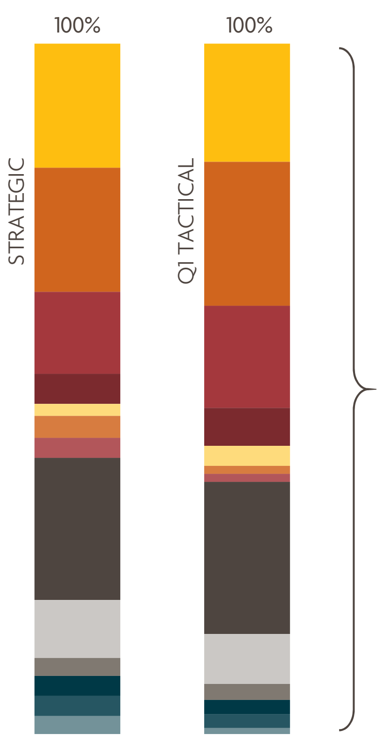
CONTRIBUTORS

- Overweight in U.S. equities
- Underweight real estate and infrastructure
- Overweight in emerging market equities
- Moderate underweight in the Canadian versus U.S. dollar

DETRACTORS

- Broad overweight exposure to equities
- Underweight cash

Q1 ASSET ALLOCATION



ALLOCATION DETAILS AS OF MARCH 31, 2018

ASSET CLASS	STRATEGIC %	TACTICAL %	TACTICAL OVER/UNDER	TACTICAL CHANGE FROM PRIOR QUARTER
Canadian equity	18.0	17.0	-1.0	-0.8
U.S. equity	18.0	21.1	3.1	-1.0
International equity	11.7	14.7	3.0	1.2
Emerging markets equity	4.5	5.6	1.1	1.1
Global equity	1.8	2.8	1.0	1.0
Global real estate	3.0	1.2	-1.8	-0.5
Global infrastructure	3.0	1.2	-1.8	0.0
Canadian bonds	20.5	21.9	1.4	0.0
U.S. bonds	8.5	7.2	-1.3	0.3
Global bonds	2.5	2.5	0.0	0.0
Emerging markets bonds	3.0	2.0	-1.0	-0.5
High yield bonds	3.0	2.0	-1.0	-0.5
Cash	2.5	0.8	-1.7	-0.3
Totals: (May be rounded)	100	100	3.6 Equity	

The coloured columns provide an at-a-glance comparison of long-term portfolio allocations (strategic) to current, short-term allocations (tactical). The table provides the weights for each asset class in each coloured column and shows to what degree the tactical allocation is a) different from the strategic allocation, and b) different from what it was at the end of the prior quarter. With this information you are able to see how the portfolio composition reflects our investment views, and how the composition evolves over time in accordance with an ever-changing market environment.

KEY TACTICAL CHANGES

- Lowered credit risk by reducing exposure to high yield corporate bonds
- Increased overall equity exposure, including emerging markets, international and global mid-cap stocks
- Further reduced exposure to Canadian equities on economic weakness
- Further reduced exposure to real estate equities on rising interest rate concerns
- Maintained overweight in Canadian bonds

Equity markets started the year strongly, but in February a sudden spike in yields and subsequent volatility triggered a wave of selling, pushing the market into a 10% correction. Equities started to recover, but sold off again as the quarter closed when the U.S. and Chinese governments threatened to place tariffs on a wide range of products.

Despite the extreme volatility this caused, we believe economic fundamentals remain positive. In fact, as currently proposed, the tariffs would have little impact on U.S. and Chinese economic output with continuing strong job growth and high consumer confidence. As a result, we maintained our overweight exposure to U.S. equities.

With global growth staying strong, emerging markets could continue to benefit. To participate in this, we initiated an overweight position in emerging market equities and increased exposure to global mid-cap stocks

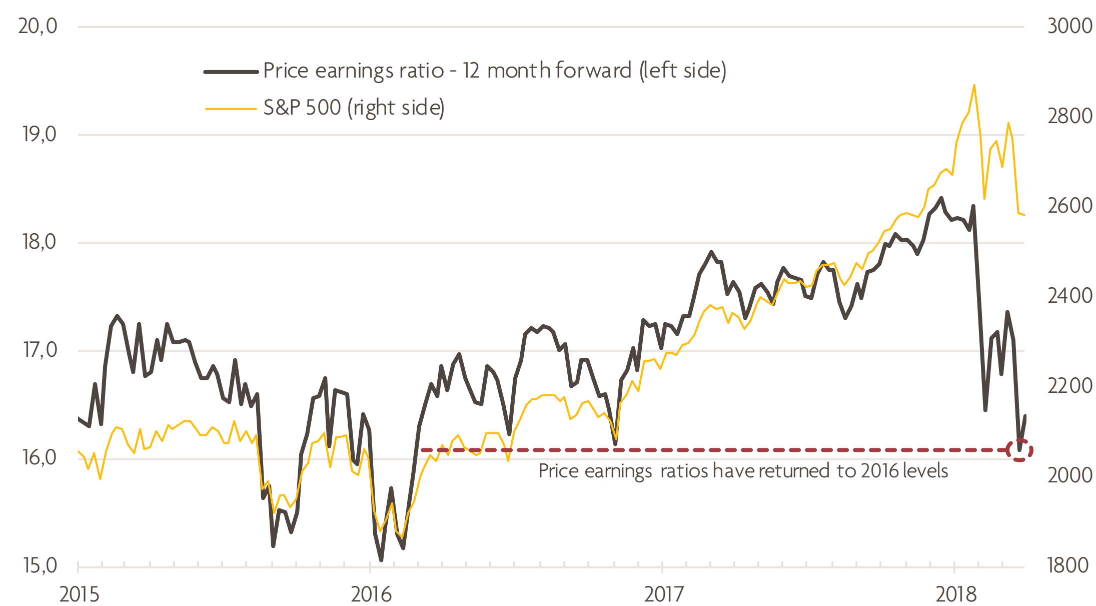
While we are closely following political events in Europe, we are moderately overweight in international equities, which should also benefit from continuing economic growth and the accommodative monetary policies of the European and Japanese central banks.

To help reduce risk in the portfolio following our decision to increase the equity weighting, we decreased exposure to high yield corporate bonds.

On the interest-rate front, we may see two or three interest rates hikes in the U.S. this year, but given the economic uncertainty in Canada, it's not clear how many times the Bank of Canada will raise interest rates in 2018. We certainly don't expect the BoC to be as aggressive as the U.S. Federal Reserve.

And with less upward pressure on domestic interest rates, we maintained our overweight exposure to Canadian bonds over U.S. bonds.

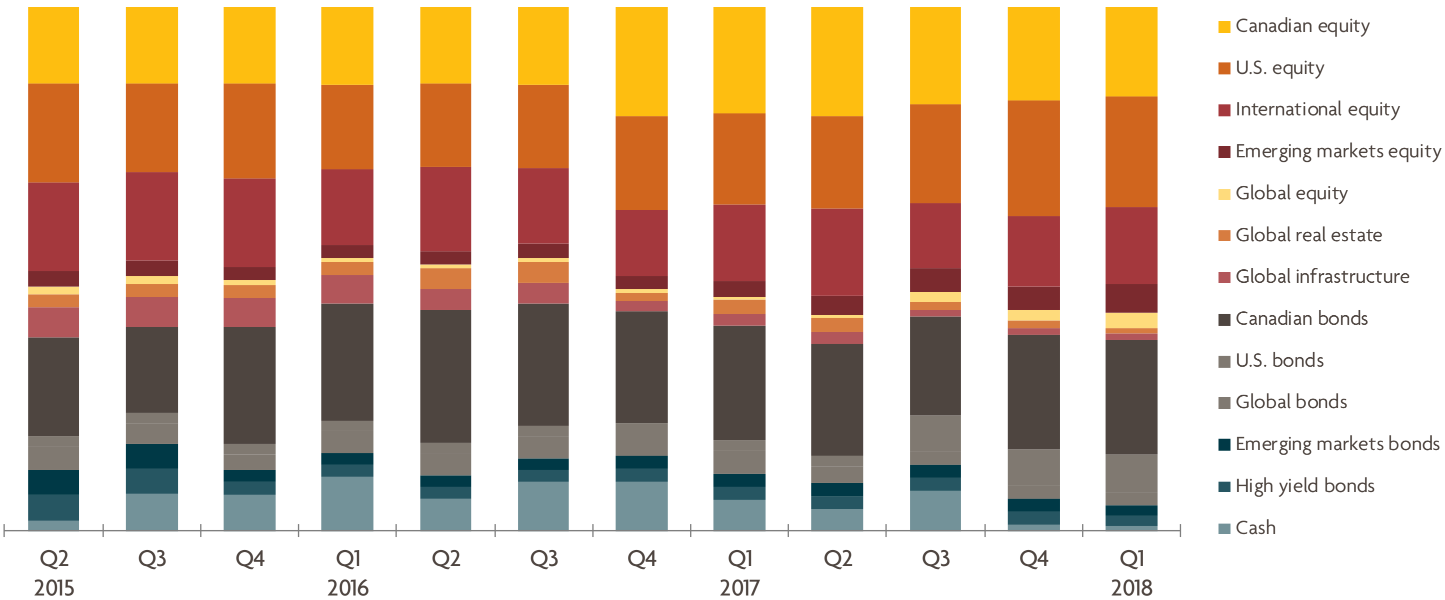
STRONG EARNINGS. BETTER VALUATIONS SUPPORT THE MARKET



Price earnings ratios, which measure a company's share price against it profits, have climbed steadily since the S&P 500 hit bottom on March 9, 2009. But following February's correction that knocked 10% off of the S&P 500, PE ratios, driven by falling share prices and continued strong earnings growth, have tumbled back to where they were in 2016. So in essence, investors are paying less today for higher earnings.

Source: Bloomberg. Data as of March 31, 2018.

TACTICAL ALLOCATIONS - HISTORY



Allocations are as at quarter-end and subject to change without notice.

PORTFOLIO RETURNS % SERIES A

Q1	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION	INCEPTION DATE
-0.6	3.6	3.3	7.1	7.5	January 17, 2012

Returns for periods longer than one year are annualized. Data as of March 31, 2018.

Sun Life Granite Managed Portfolios invest in mutual funds and/or exchange traded funds (ETFs). Commissions, trailing commissions, management fees and expenses all may be associated with mutual fund investments. Investors should read the prospectus before investing. The indicated rates of return is are the historical annual compounded total returns including changes in security value and reinvestment of all distributions and do not take into account sales, redemption, distribution or other optional charges or income taxes payable by any securityholder that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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