

Sun Life Granite Conservative Portfolio SERIES A

FUND REVIEW Q3 2018 | Opinions as of October 1, 2018

CATEGORY¹

Global Fixed Income Balanced

MANAGEMENT COMPANY

Sun Life Global Investments (Canada) Inc.

INCEPTION DATE

January 17, 2012

PORTFOLIO MANAGERS

Sadiq S. Adatia, FSA, FCIA, CFA

Chhad Aul, CFA

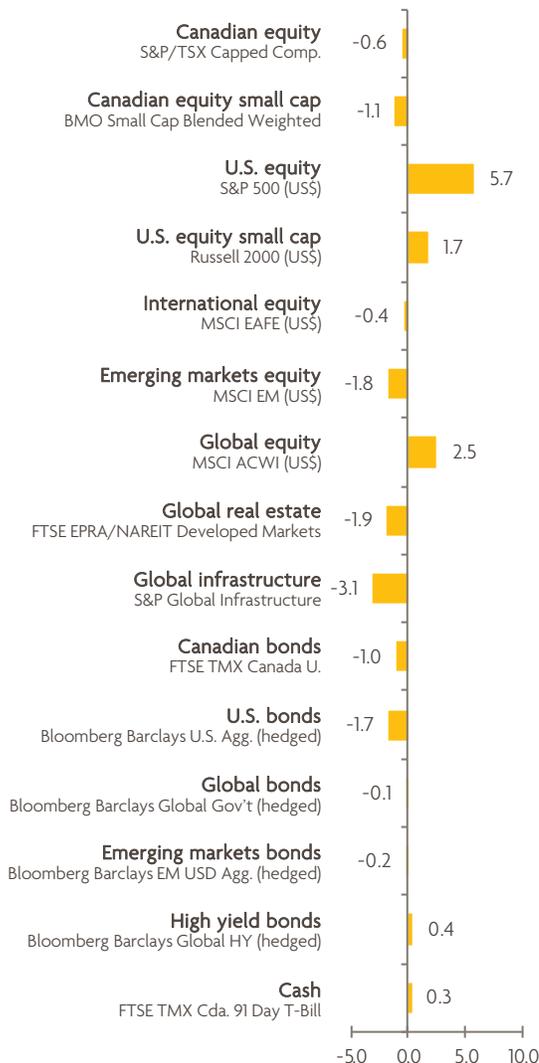
Kathrin Forrest, CFA

HIGHLIGHTS

- Sun Life Granite Conservative Portfolio returned - 0.3% in Q3
- Moved to small overweight position in international equities
- Maintained defensive option strategies on U.S. tech stocks and emerging market equities
- Reduced exposure to Canadian bonds
- Increased exposure to U.S. bonds
- Overweight Japanese equities
- Slightly overweight the Canadian dollar

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

MARKET RETURNS



Source: Bloomberg. Data as of September 30, 2018. Total return in CS or as indicated.

OUTLOOK

Canada, the United States and Mexico signed on to a new trade deal to replace NAFTA. But just days before, U.S. President Donald Trump ratcheted up pressure on China, placing a 10% tariff on a further \$200-billion worth of Chinese goods entering the U.S. China immediately countered with a 5 to 10% tariff on \$60 billion in U.S. imports. This is a significant escalation. And it won't be easily resolved, with trade negotiations between the two countries breaking off at one point.

The new NAFTA pact called the United States-Mexico-Canada Agreement (USMCA) appears to be a good one for our country. Most of the previous NAFTA agreement remains as it was, with only minor changes. In addition, it keeps important elements like the dispute mechanism firmly in place.

We still feel confident about the U.S. given the strong economic fundamentals. But with mid-term elections around the corner and the trade dispute with China escalating, we have slightly reduced our weighting after a strong run.

We are growing more confident on Europe. And we have rotated some of our money out of the U.S. into this market. In Canada, many economic risks have been priced into the market, which has been under pressure for the last few years. However, with NAFTA resolved there could be a move higher in the markets.

The Bank of Canada is expected to raise rates again in October, and then wait to assess economic data. It will also now have to consider the positive impact of the new trade deal in its economic outlook.

PORTFOLIO REVIEW

Sun Life Granite Conservative Portfolio returned -0.3% in Q3.

The portfolio benefited from the positive performance of equities in general, including overweight positions in Japanese as well as U.S. equities – the strongest performing market, with the S&P 500 reaching a new record high.

As well, defensive options strategies on emerging market equities and U.S. tech stocks cushioned the temporary downward move in the market.

Throughout much of the quarter, the portfolio's underweight exposure to bonds helped returns when yields climbed causing bond prices to fall.

However, political uncertainty in Europe suppressed valuations and emerging markets sold off during the escalation of the trade war between China and the U.S. As a result, our overweight exposure to both emerging market and EAFE equities dampened returns.

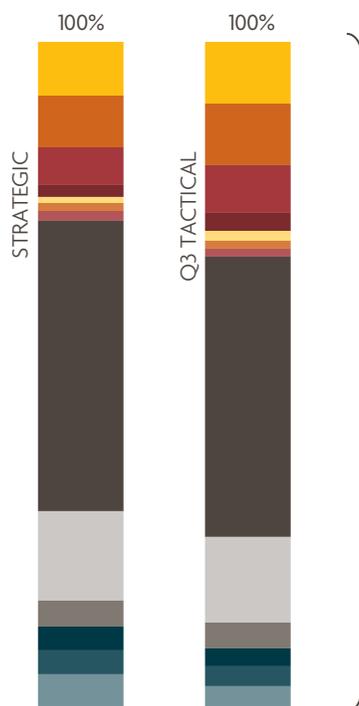
CONTRIBUTORS

- Underweight bonds
- Overweight U.S. equities
- Overweight Japanese equities

DETRACTORS

- Overweight emerging market equities
- Overweight EAFE equities

Q3 ASSET ALLOCATION



ALLOCATION DETAILS AS OF SEPTEMBER 30, 2018

| ASSET CLASS | STRATEGIC % | TACTICAL % | TACTICAL OVER/UNDER | TACTICAL CHANGE FROM PRIOR QUARTER |
|-------------------------|------------------|------------|---------------------|------------------------------------|
| Canadian equity | 8.0 | 9.2 | 1.2 | 0.6 |
| U.S. equity | 8.0 | 9.4 | 1.4 | -1.3 |
| International equity | 5.6 | 7.1 | 1.5 | 0.9 |
| Emerging markets equity | 1.8 | 2.9 | 1.1 | 0.5 |
| Global equity | 0.8 | 1.4 | 0.6 | 0.0 |
| Global real estate | 1.4 | 1.2 | -0.2 | -0.2 |
| Global infrastructure | 1.4 | 1.2 | -0.2 | -0.2 |
| Canadian bonds | 43.5 | 42.1 | -1.4 | -1.9 |
| U.S. bonds | 13.7 | 12.9 | -0.8 | 1.0 |
| Global bonds | 3.8 | 3.7 | -0.1 | 0.0 |
| Emerging markets bonds | 3.5 | 2.9 | -0.6 | 0.0 |
| High yield bonds | 3.5 | 2.9 | -0.6 | 0.0 |
| Cash | 5.0 | 3.1 | -1.9 | 0.6 |
| Totals: | 100 | 100 | 5.4 | Equity |
| | (May be rounded) | | | |

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

- Continued to use defensive option strategies on U.S. tech stocks and emerging market equities
- Increased to slight overweight to international equities on attractive valuations with potential to catch up to the U.S.
- Increased exposure to U.S. bonds with yields possibly rising faster in Canada
- Overweight Japan on the prospect of improving economic growth and attractive valuations

The third quarter ended the way it began, with the S&P 500 steadily rising toward a record high. However, with the S&P 500 on a 10-year bull run there may be a correction ahead and we are growing cautious.

If there is a pull back, we feel it may be led by large technology stocks, such as Netflix and Apple, which we believe are frothy. They could lead the market lower if people decide to book profits. And to potentially reduce risk we adopted a defensive options strategy focused on the technology sector.

As well, we started to shift money out of the U.S. market into European equities. We believe the European economy is solid, but political uncertainty has kept valuations suppressed. However, as those risks diminish, valuations may now catch up to the U.S. and we are slightly overweight.

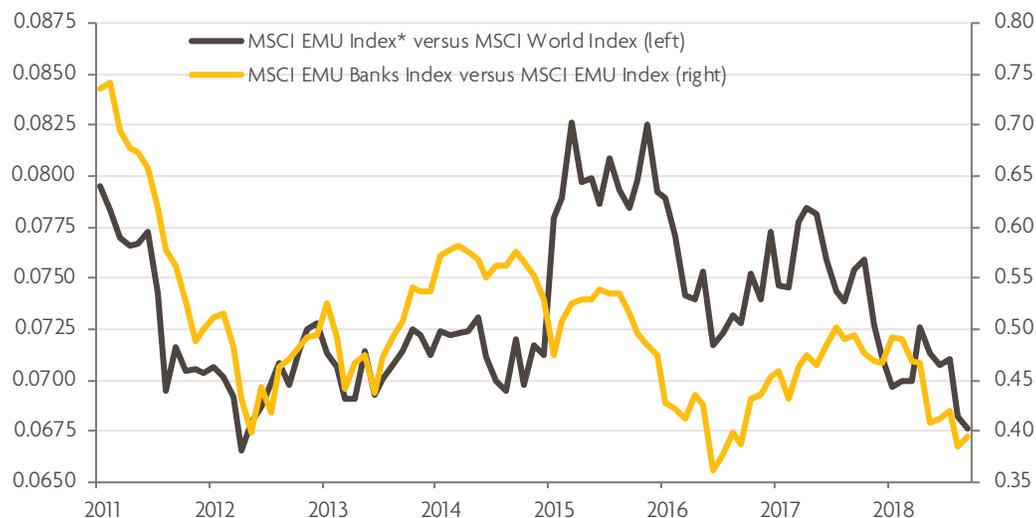
With the prospect of improving growth, we continue to be neutral on Canada, after being underweight for a number of

months. We feel that many of the issues overhanging Canada's economy, including an inflated housing market and high consumer debt loads, have been baked into the market. Moreover, with a revamped NAFTA in place, the economy could benefit if foreign and domestic capital spending picks up on more economic certainty.

Emerging markets, trapped in the tariff war between China and the U.S. and hurt by a rising U.S. dollar, struggled throughout the quarter. We continue to be overweight but are using an option strategy to reduce potential risk.

In terms of fixed income, the yield on Canadian 10-year bonds ended the quarter at 2.42%, while yields on U.S. 10-year Treasuries reached 3.05%, up 20 bps. However, we believe the Bank of Canada has more room to raise interest rates, with yields possibly running higher in Canada.

FRAGILE BANKS SLOW THE EUROPEAN ECONOMY

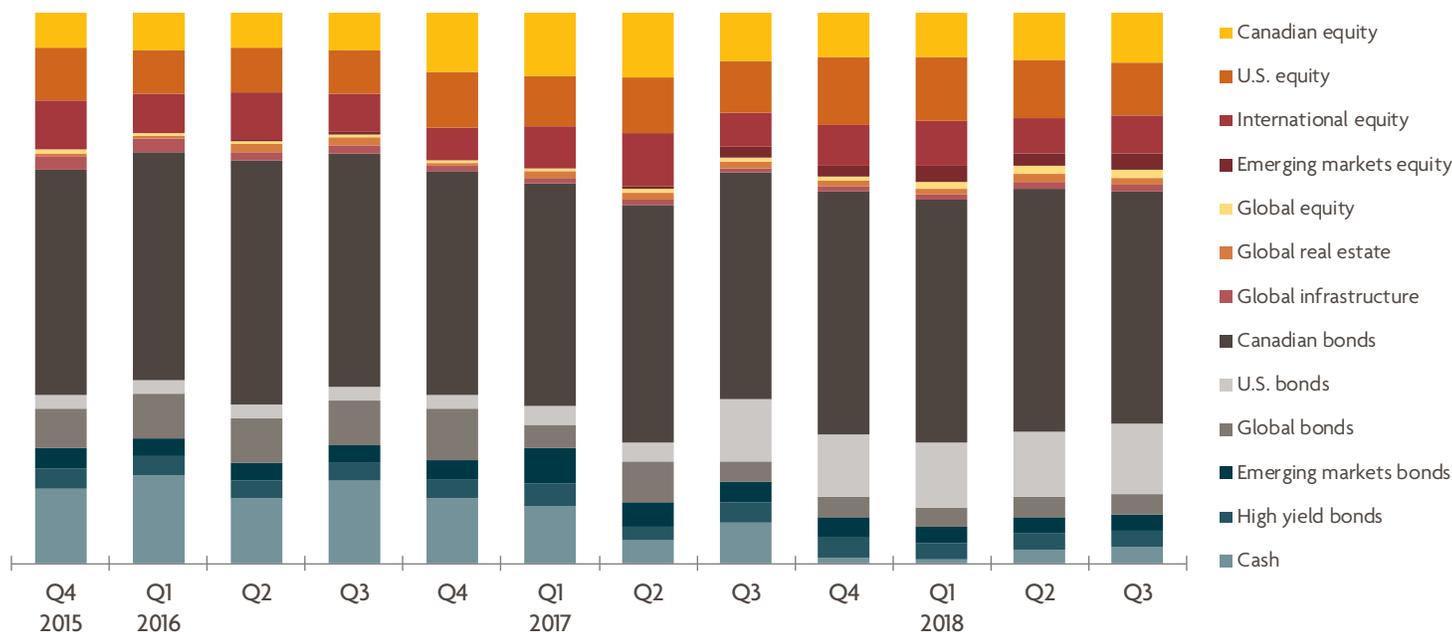


Source: Bloomberg.

European banks have struggled to recover from the continent's multi-year debt crisis. But many of the sector's gains over the first half of the year have been erased by political turmoil in Italy where the banking sector has been near collapse. As this chart illustrates, for European equities to outperform their global counterparts, we believe the EU banking system will have to fully recover and lead the market higher.

*In 2017 the MSCI EMU (European Economic and Monetary Union) Index represented approximately 85% of the total market capitalization of the Eurozone.

TACTICAL ALLOCATIONS - HISTORY



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

PORTFOLIO RETURNS % SERIES A

| Q3 | 1 YEAR | 3 YEAR | 5 YEAR | SINCE INCEPTION | INCEPTION DATE* |
|------|--------|--------|--------|-----------------|-----------------|
| -0.3 | 2.3 | 3.1 | 4.4 | 4.4 | April 02, 2012 |

Returns for periods longer than one year are annualized. Data as of September 30, 2018.

*On April 2, 2012, Sun Life Granite Conservative Portfolio underwent a merger that was a material change for the fund under applicable securities laws. As a result of this change, we are only permitted to show performance information for periods after the date of the merger.

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 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.

This quarterly review is published by Sun Life Global Investments (Canada) Inc. and contains information in summary form. Although information has been obtained from sources believed to be reliable, Sun Life Global Investments (Canada) Inc. cannot guarantee its accuracy or completeness. Information is subject to change. The quarterly review should not be construed as providing specific individual financial, investment, tax, or legal advice. Investors should speak with their professional advisors before acting on any information contained in this document. Please note, any future or forward looking statements contained in this quarterly review are speculative in nature and cannot be relied upon. There is no guarantee that these events will occur or in the manner speculated.

© Sun Life Global Investments (Canada) Inc., 2018. Sun Life Global Investments (Canada) Inc. is a member of the Sun Life Financial group of companies.

Sun Life Global Investments (Canada) Inc.
 1 York Street, Toronto, Ontario M5J 0B6
 Telephone: 1-877-344-1434 | Facsimile: 416-979-2859
info@sunlifeglobalinvestments.com | www.sunlifeglobalinvestments.com

