

Sun Life Granite Growth Portfolio SERIES A

FUND REVIEW Q2 2017 - Opinions as of June 30, 2017

CATEGORY¹

Global Equity Balanced

MANAGEMENT COMPANY

Sun Life Global Investments
(Canada) Inc.

INCEPTION DATE

January 17, 2012

PORTFOLIO MANAGERS

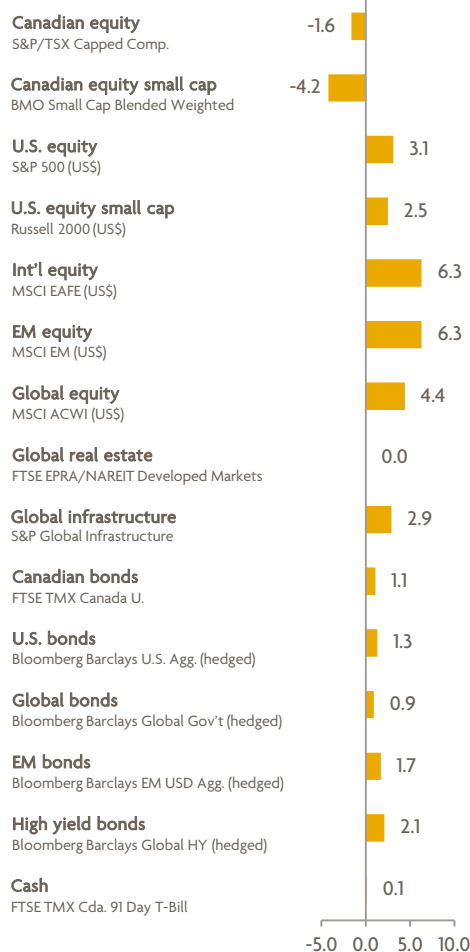
Sadiq S. Adatia, FSA, FCIA, CFA
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HIGHLIGHTS

- Sun Life Granite Growth Portfolio rose 0.8% in Q2
- Shifted U.S. investment bias from growth to value
- Increased exposure to European equities
- Added exposure to emerging market equities
- While still positive, reduced exposure to U.S. equities

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

MARKET RETURNS



OUTLOOK

Halfway through the year, U.S. President Donald Trump still has not been able to deliver the steep tax cuts and a massive economic stimulus program he had promised during his campaign. U.S. equity markets have shrugged off the delay but how long will markets remain patient?

The good news is the U.S. economy has a strong footing with low unemployment, good consumer confidence and healthy consumer balance sheets. At its June meeting, the U.S. Federal Reserve raised the federal funds rate by 25 bps to 1.25%, as expected.

Oil remains the big story for Canada. Though we have seen a slight bounce-back in oil prices recently, prices remain much lower than the start of the quarter. With NAFTA discussions still going on, cracks in Canadian housing and high debt levels, there is very little reason to feel optimistic about Canada's economy.

Factors driving returns in the quarter include falling oil prices and a weak performance from Canada's financial services sector, a rising loonie, a surge in European markets following the election of Emmanuel Macron in France, and a dip in bond yields in the U.S. and Canada.

Overall, we feel we are well-positioned given current economic conditions.

Source: Bloomberg. Data as of June 30, 2017. Total return in C\$ or as indicated.

PORTFOLIO REVIEW

Sun Life Granite Growth Portfolio rose 0.8% in Q2.

The portfolio benefited from continuing strength in global equities, including European markets which rose following the election of Emmanuel Macron, France's new pro-European president. As well, emerging market equities surged as U.S. relations with China improved, and the threat of trade sanctions diminished.

Returns were also enhanced by reducing the weighting in Canadian and global investment grade bonds and adding exposure to international and emerging market equities.

Portfolio returns were hindered by being overweight Canadian energy when oil prices fell sharply as crude inventories increased. However, option strategies used to acquire energy exposure, helped reduce downside risk.

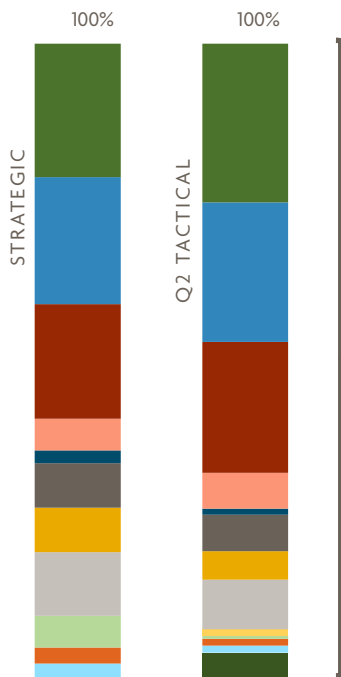
CONTRIBUTORS

- Overweight equities
- Underweight bonds
- Underweight global real estate

DETRACTORS

- Overweight Canadian energy
- Underweight global high yield bonds
- Underweight global infrastructure

Q2 ASSET ALLOCATION



ALLOCATION DETAILS AS OF JUNE 30, 2017

ASSET CLASS	STRATEGIC %	TACTICAL %	TACTICAL OVER/UNDER	TACTICAL CHANGE FROM PRIOR QUARTER
Canadian equity	21.0	25.0	-0.2	+0.3
U.S. equity	20.0	22.0	+0.1	+0.6
Int'l equity	18.0	20.6	+2.6	-
EM equity	5.0	5.6	+0.6	-
Global equity	2.0	1.0	-1.0	-
Global real estate	7.0	5.7	-1.3	-
Global infrastructure	7.0	4.5	-2.5	-
Canadian bonds	10.0	7.8	-2.2	-1.7
U.S. bonds	0.0	1.0	+1.0	-
Global bonds	5.0	0.5	-4.5	-
EM bonds	2.5	1.1	-1.4	-
High yield bonds	2.5	1.1	-1.4	-
Cash	0.0	4.2	+4.2	-1.8
Totals: May be rounded	100	100	+4.3 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

- Shifted U.S. investment bias from growth to value near the end of the quarter
- Increased allocation to international equities on improved relative value
- Added exposure to emerging market equities on reduced trade risks
- In anticipation of higher interest rates, reduced exposure to global bonds

Following the election of U.S. President Donald Trump, markets rallied in the belief that he would implement a sweeping economic growth agenda. While the market has priced in some of the assumed benefits of his stimulus program, its implementation still appears to be months off and the market is giving less and less weight to the proposals.

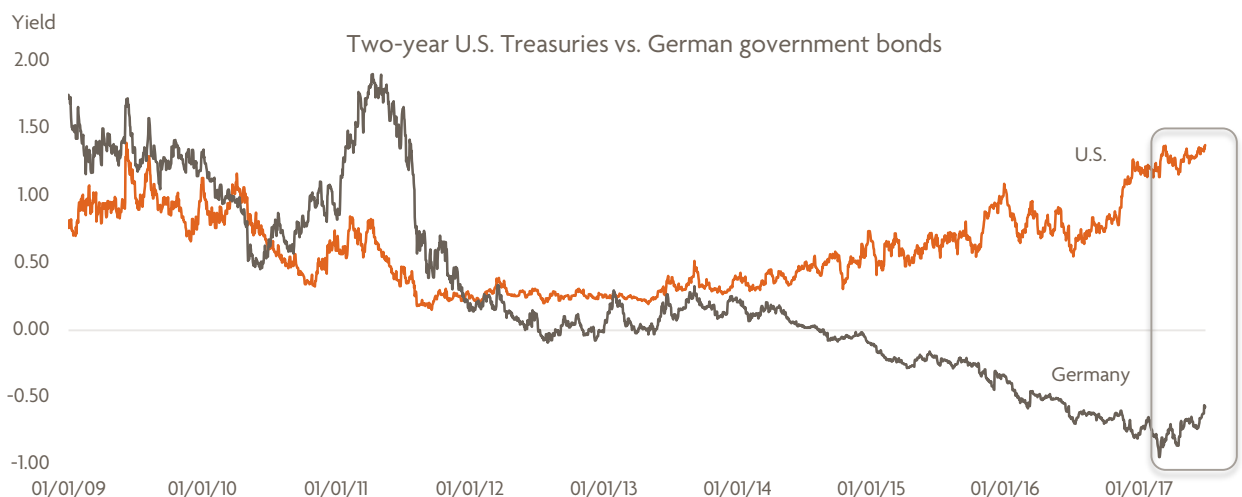
However we feel the U.S. economy will improve in the second half of the year, and have shifted our investment bias from growth to value (such as financials), which tend to outperform late in the economic cycle. With uncertainty about Trump's stimulus package, higher valuations and lower potential employment growth, we are looking to hedge downside risk in U.S. equities – but remain slightly bullish.

In Europe, political risk is fading, and we are seeing improved economic growth and a highly-accommodative monetary policy. And at the same time, European equities generally have better valuations than U.S. issues.

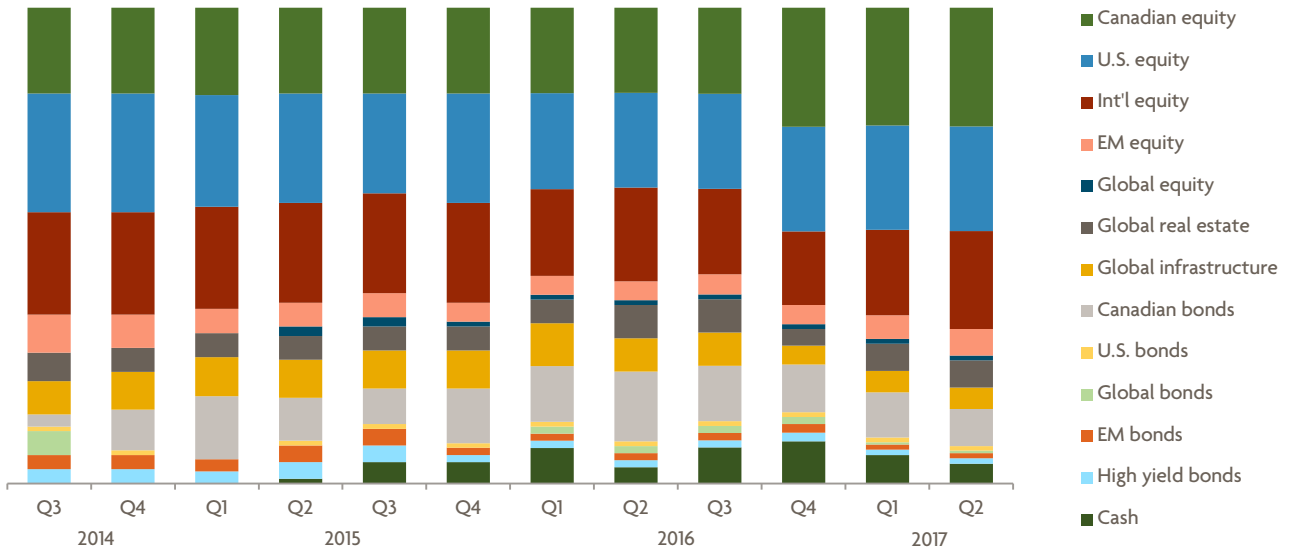
We also think that high personal debt levels and the cracks that seem to be appearing in the housing market are a threat to the Canadian economy. Those risks may have increased when the Bank of Canada raised interest rates by 0.25% to 0.75% on July 12.

Bond yields rose in the quarter. And if the U.S. Federal Reserve and BoC continue to raise interest rates along with other central banks, we could see Canadian and global bond yields move higher by year-end.

MONETARY POLICY IS BEGINNING TO CONVERGE WORLDWIDE



TACTICAL ALLOCATIONS - HISTORY



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

PORTFOLIO RETURNS % SERIES A					
Q2	1YR	3YR	5YR	SINCE INCEPTION	INCEPTION DATE
0.8	9.4	5.4	7.2	9.7	January 17, 2012

Returns for periods longer than one year are annualized. Data as of June 30, 2017.

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.

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