Sun Life Granite Income Portfolio SERIES A

FUND REVIEW Q4, 2017 | Opinions as of January 5, 2018

CATEGORY[1]
Tactical Balanced

MANAGEMENT COMPANY
Sun Life Global Investments (Canada) Inc.

INCEPTION DATE
January 17, 2013

PORTFOLIO MANAGERS
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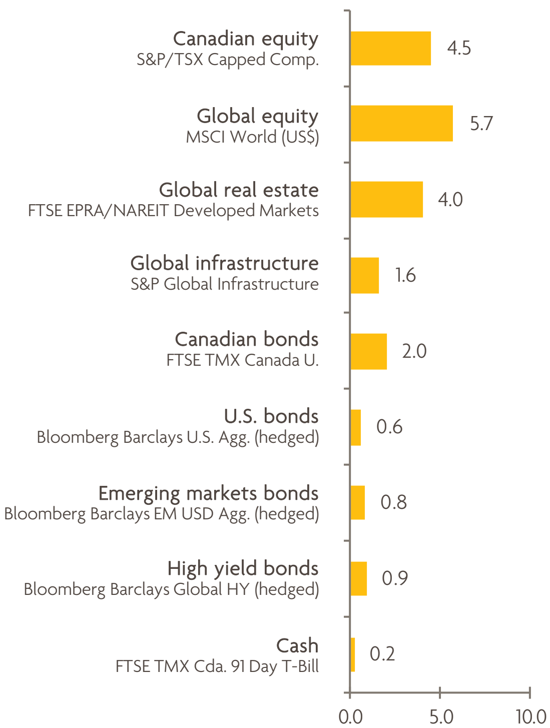
HIGHLIGHTS

- Sun Life Granite Income Portfolio rose 2.1.% in Q4
- U.S. Congress passes tax reform bill that could help markets rally higher
- Overweight U.S. equities (within the global equities allocation)
- Increased overall exposure in equities and bonds
- Moved to moderate underweight position in 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 December 31, 2017.
Total return in C$ or as indicated.

OUTLOOK

Equity markets continued to surge in Q4 with most ending 2017 near record levels. It truly was an incredible year with strength across all global equity markets. And even though interest rates were increased multiple times in Canada and the U.S., they remain at relatively low levels and continue to fuel growth.

Tax cuts passed by the U.S. Congress should help boost corporate earnings and add to already high consumer confidence. Although we expect multiple rate hikes in 2018, and equity valuations are expensive, we still see growth continuing with markets moving higher. Accordingly, we remain slightly bullish on U.S. and equities in general.

However, we cannot ignore the potential risks in Canada. Housing prices may have started their decline, consumer debt continues to be worrisome and the fate of NAFTA is still not resolved.

The only positive we see is some upside in energy stocks if they play catch-up with oil prices. Not surprisingly, we continue to remain less optimistic about this market.

Overall, we are positive, but we do see the second half of 2018 being different then the first half. For now, we remain slightly bullish on equity markets with a bias to foreign markets and less positive on bonds.

PORTFOLIO REVIEW

Sun Life Granite Income Portfolio rose 2.1% in Q4.

In Q4 the portfolio benefited from the continuing strength in equities, especially from an overweight position in U.S. stocks and an underweight to real estate and infrastructure. And our overall underweight to bonds in general was a major contributor to returns.

However, within in our bond strategy, a relative overweight to Canadian versus U.S. bonds, hindered performance when U.S. bonds outperformed.

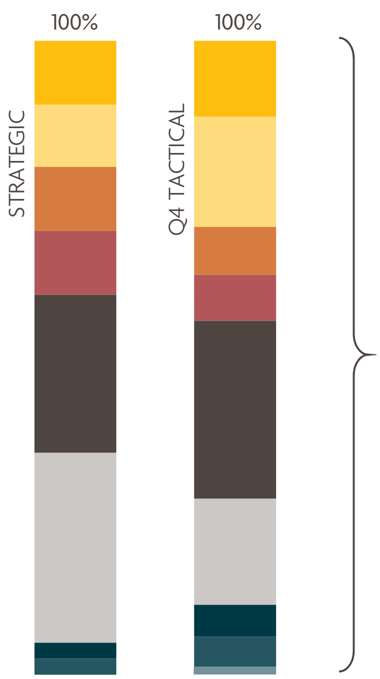
CONTRIBUTORS

- Overweight equities versus bonds
- Overweight exposure to U.S. equities (within the global equities allocation)
- Underweight real estate and infrastructure

DETRACTORS

- Overweight exposure to Canadian equities
- Moderate underweight to Canadian versus U.S. dollar

Q4 ASSET ALLOCATION



ALLOCATION DETAILS AS OF DECEMBER 31, 2017

ASSET CLASS	STRATEGIC %	TACTICAL %	TACTICAL OVER/UNDER	TACTICAL CHANGE FROM PRIOR QUARTER
Canadian equity	10.0	12.0	2.0	-0.9
Global equity	10.0	17.3	7.3	4.2
Global real estate	10.0	7.5	-2.5	0.0
Global infrastructure	10.0	7.5	-2.5	0.0
Canadian bonds	25.0	28.1	3.1	3.0
U.S. bonds	30.0	16.5	-13.5	0.0
Emerging markets bonds	2.5	5.0	2.5	0.0
High yield bonds	2.5	5.0	2.5	0.0
Cash	0.0	1.1	1.1	-6.4
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

- Increased exposure to Canadian bonds
- Increased exposure to U.S. and international equities (within global equity allocation)
- Reduced Canadian equity exposure
- Closed out remaining position in energy

In December a tax-reform package finally made its way through the U.S. Congress and earlier in the fourth quarter of 2017 we had increased our weighting in U.S. equities on strong economic fundamentals and in the belief that corporate and individual tax cuts contained in the tax bill had not been fully priced into the market and could help extend the rally in the S&P 500.

This proved to be the correct call with markets moving higher throughout Q4. While valuations now look more expensive, we expect the U.S. market to perform well in first half of 2018 and we remain bullish on U.S. equities.

Our positioning in international and emerging market equities was also positive in Q4. Certainly, the European economy has rebounded and has plenty of room to grow. And while we are watching the upcoming Italian elections and the health of Italian banks, we remain slightly bullish on European equities.

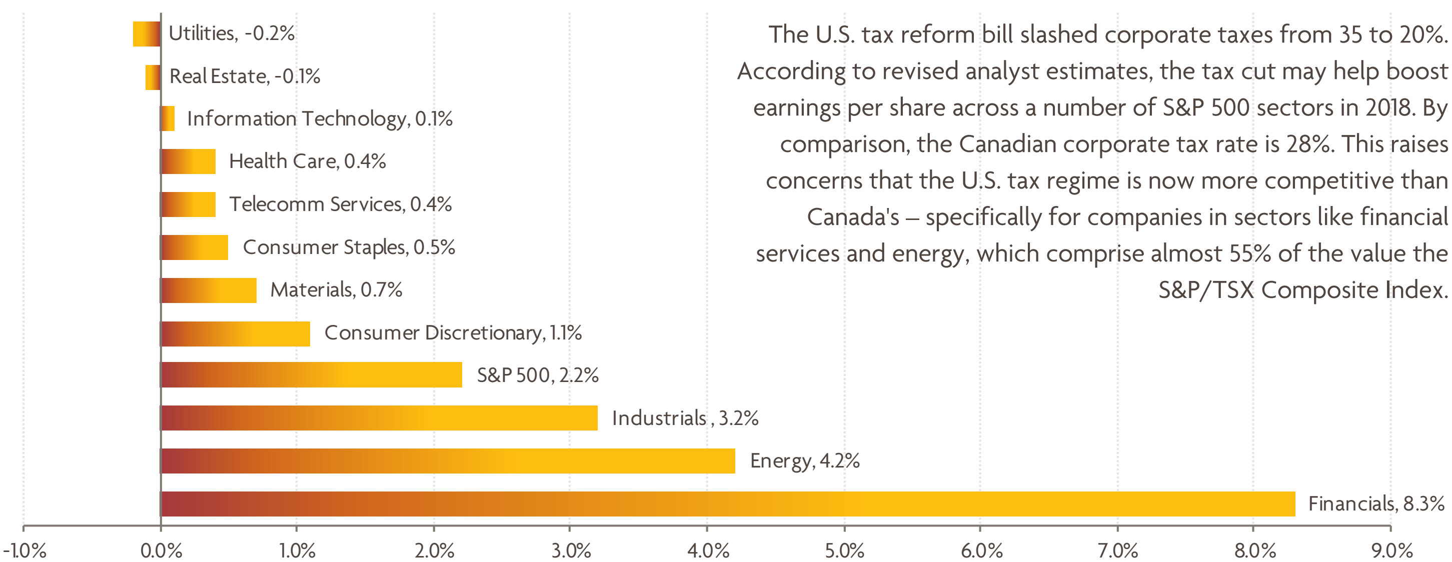
While we do not expect growth to continue uninterrupted, emerging markets were the top performers in 2017. Over the longer term, emerging markets will likely continue to be the growth engine of the global economy and we are maintaining our current position.

We have seen synchronized global growth, but the Canadian economy faces a number of risks, including cracks in the over heated housing market and the possible cancellation of NAFTA. As such, in Q4 we continued to be bearish on Canadian equities. Moreover, with oil prices reaching our estimate of fair value, we closed out our position in energy.

In terms of fixed income, Canadian bond yields moved lower early in Q4 before starting to rise again near year-end, while yields on U.S. 10-year Treasuries climbed steadily throughout the quarter. We expect yields to rise in both countries, but because we believe they will rise at a slower pace in Canada, we increased our weighting in Canadian bonds.

WILL U.S. COMPANIES BECOME MORE COMPETITIVE THAN CANADA'S?

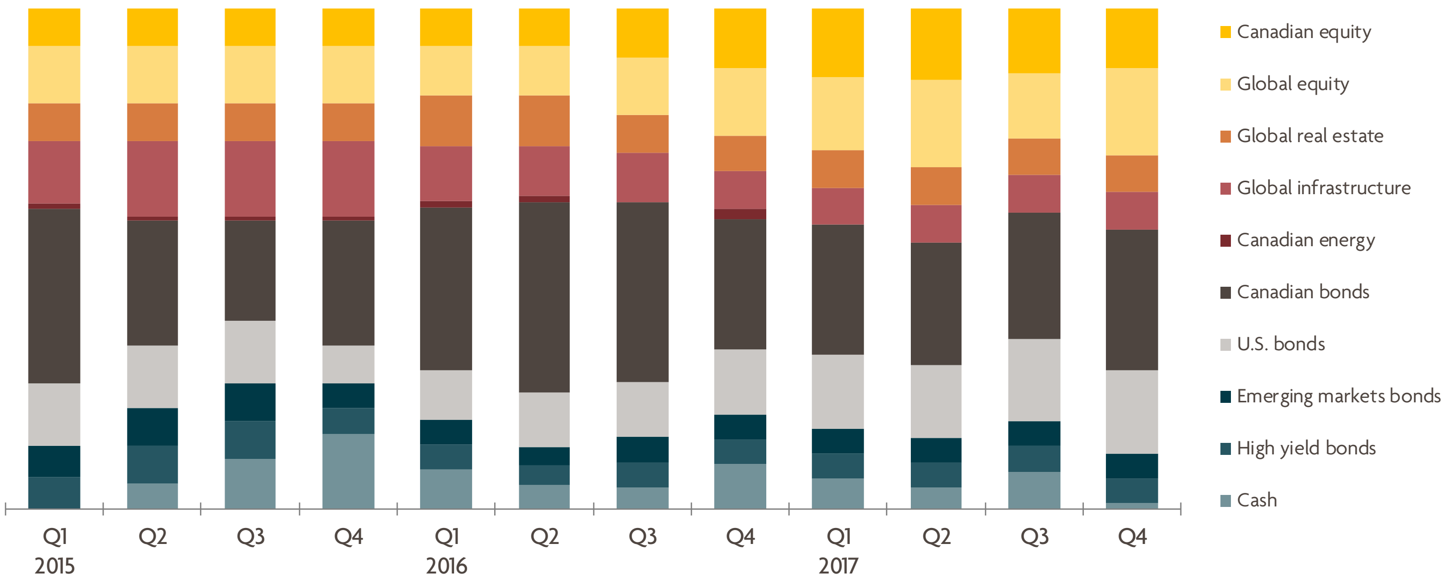
Estimated changes in earnings per share in 2018



The U.S. tax reform bill slashed corporate taxes from 35 to 20%. According to revised analyst estimates, the tax cut may help boost earnings per share across a number of S&P 500 sectors in 2018. By comparison, the Canadian corporate tax rate is 28%. This raises concerns that the U.S. tax regime is now more competitive than Canada's – specifically for companies in sectors like financial services and energy, which comprise almost 55% of the value the S&P/TSX Composite Index.

Source: FactSet Research Systems Inc.

TACTICAL ALLOCATIONS - HISTORY



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

PORTFOLIO RETURNS % SERIES A

Q4	1 YEAR	2 YEAR	3 YEAR	SINCE INCEPTION	INCEPTION DATE*
2.1	5.7	4.7	3.4	5.0	January 17, 2013

Returns for periods longer than one year are annualized. Data as of December 31, 2017.

Sun Life Granite Managed Income 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.

The funds intend to make monthly distributions at a fixed rate. An investor's actual annual distribution rate is dependent on the net asset value of the units at the time they are acquired, and on the rate of distribution at such time. Distributions should not be confused with "yield" or "income", and are not intended to reflect a fund's investment performance or rate of return. Distributions may be comprised of income, capital gains or return of capital. The distribution rate on units held by an investor may be greater than the return on the fund's investments. If the cash distributions paid to an investor are greater than the net increase in the value of the investment, the distribution will erode the value of the original investment. Distributions are automatically reinvested in additional units of the applicable fund unless the investor instructs us to distribute cash. If necessary, a fund will make an additional distribution of income and capital gains in December of each year. The funds may make additional distributions of income, capital gains or return of capital at any other time as we consider appropriate. A distribution of capital is not immediately taxable to an investor but will reduce the adjusted cost basis of the investor's units. There can be no assurance that a fund will make any distributions in any particular month, and we reserve the right to adjust the amount of monthly distribution if we consider it appropriate, without notice.

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