

# Sun Life Granite Income Portfolio SERIES A

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

## CATEGORY<sup>1</sup>

Tactical Balanced

## MANAGEMENT COMPANY

Sun Life Global Investments  
(Canada) Inc.

## INCEPTION DATE

January 17, 2013

## PORTFOLIO MANAGERS

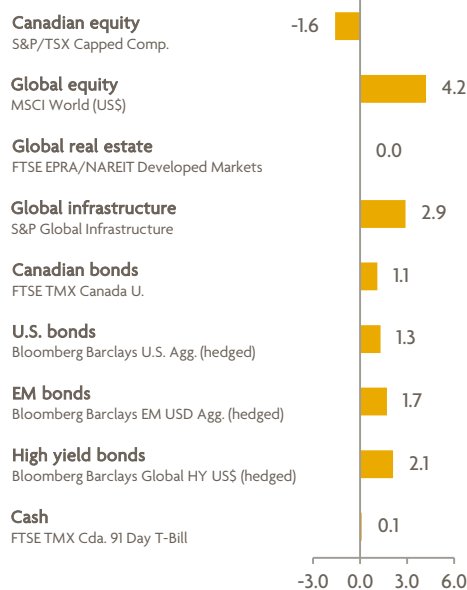
Sadiq S. Adatia, FSA, FCIA, CFA  
Chhad Aul, CFA

## HIGHLIGHTS

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

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

## MARKET RETURNS



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

## 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.

## PORTFOLIO REVIEW

Sun Life Granite Income 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..

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.

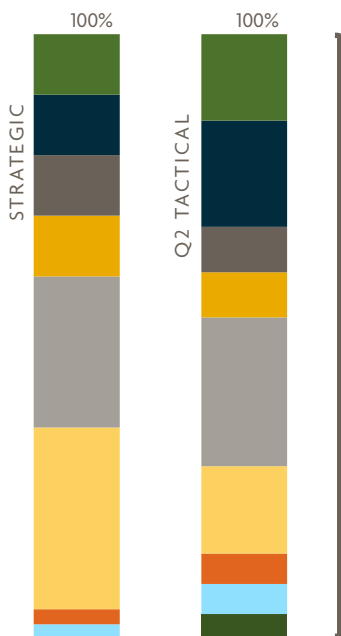
### CONTRIBUTORS

- Overweight equities
- Underweight bonds
- Underweight global real estate

### DETRACTORS

- Overweight Canadian energy
- Underweight global infrastructure

## Q2 ASSET ALLOCATION



### ALLOCATION DETAILS AS OF JUNE 30, 2017

AS-SET CLASS	STRATEGIC %	TACTICAL %	TACTICAL OVER/UNDER	TACTICAL CHANGE FROM PRIOR QUARTER
Canadian equity	10.0	14.3	+4.3	+0.6
Global equity	10.0	17.6	+7.6	+2.9
Global real estate	10.0	7.5	-2.5	-
Global infrastructure	10.0	7.5	-2.5	-
Canadian bonds	25.0	24.6	-0.4	-1.4
U.S. bonds	30.0	14.5	-15.5	-0.3
EM bonds	2.5	5.0	+2.5	-
High yield bonds	2.5	5.0	+2.5	-
Cash	0.0	4.2	+4.2	-1.8
Totals: May be rounded	100	100	+6.8 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

- Added exposure 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.

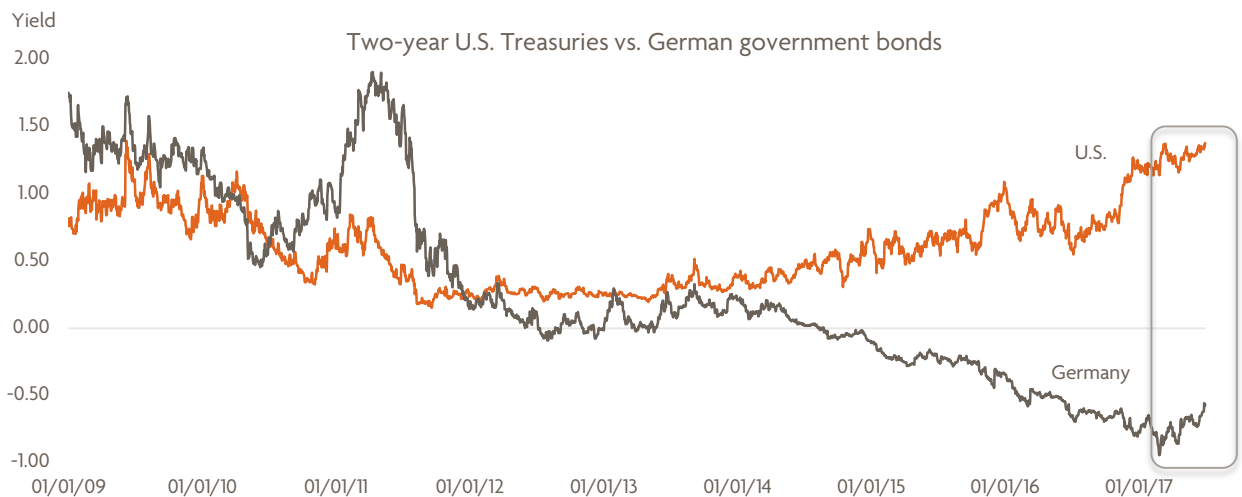
. With uncertainty about Trump's stimulus package, higher valuations and lower potential employment growth, we are looking to hedge downside risk in U.S. equities. But we remain slightly bullish, and added exposure to U.S. financials using options.

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.

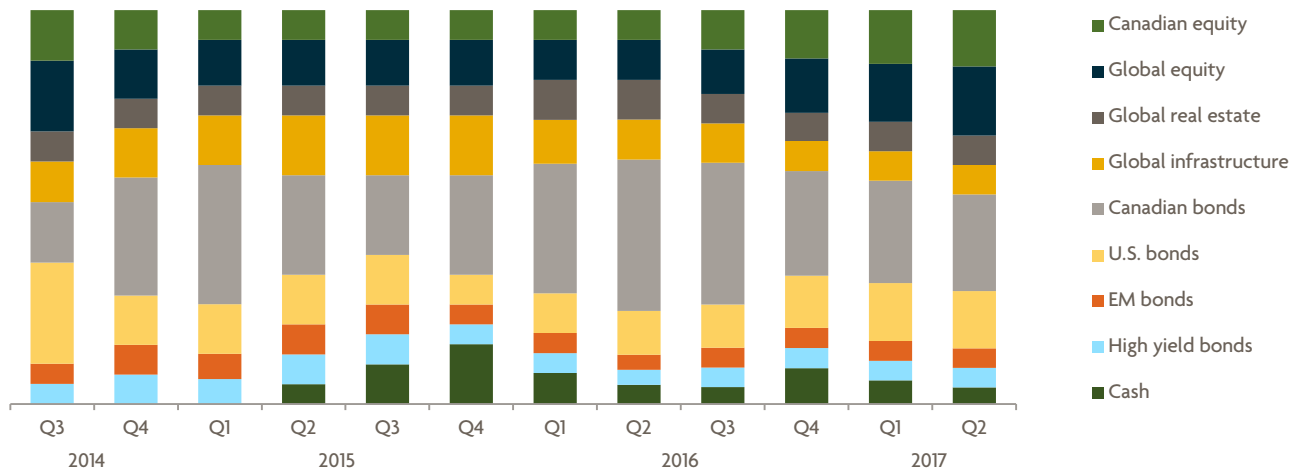
We also think that high personal debt levels and the cracks that seem to be appearing in the housing market are a threat to the Canadian economy. And those risks may have increased when the Bank of Canada raised interest rates by 0.25% to 0.75% on July 12.

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	2YR	3YR	SINCE INCEPTION	INCEPTION DATE
0.8	4.4	3.1	3.5	5.1	January 17, 2013

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