

Sun Life Granite Moderate Portfolio SERIES A

FUND REVIEW Q1, 2017 - Opinions as of March 31, 2017

CATEGORY¹

Global Neutral Balanced

MANAGEMENT COMPANY

Sun Life Global Investments
(Canada) Inc.

INCEPTION DATE

January 17, 2012

PORTFOLIO MANAGERS

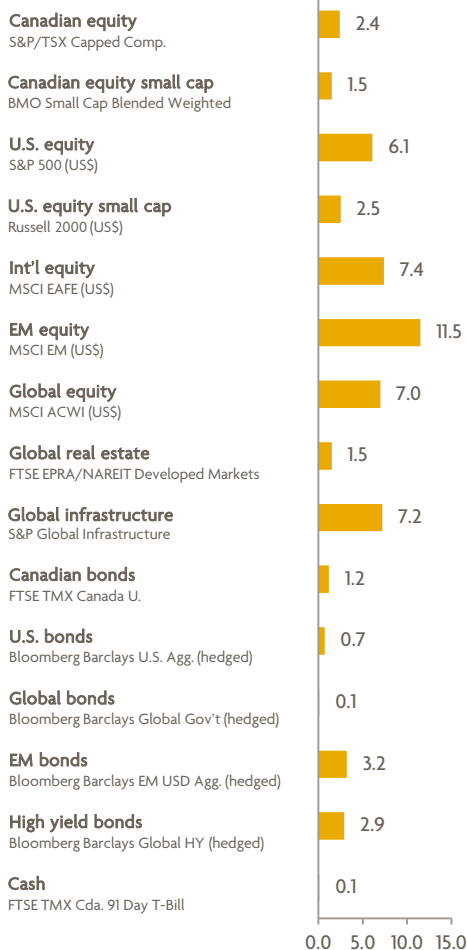
Sadiq S. Adatia, FSA, FCIA, CFA
Chhad Aul, CFA

HIGHLIGHTS

- Sun Life Granite Moderate Portfolio rose 2.9% in Q1
- Reduced cash, added to equities
- International and emerging market exposure increased to neutral
- Increased exposure to global REITs but remain underweight
- Bullish option strategies used in energy and financial sectors
- Protective option strategies used to mitigate potential volatility

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

MARKET RETURNS



OUTLOOK

U.S. President Donald Trump came to power promising to deliver steep tax cuts and a massive economic stimulus program. Since then not much has happened on that front, but equity markets seem to be embracing Trump and consumer confidence has been improving – at least in the U.S.

In Canada, the federal government is still rolling out its economic stimulus program. However, economic growth continues to surprise to the upside. But there is some uncertainty over whether OPEC and some non-OPEC countries will be able to follow through on their agreement to reduce oil production. As a result, oil prices have been volatile.

Another issue adding to economic uncertainty in Canada is the potential re-negotiation of NAFTA. We believe these negotiations will happen, but we don't anticipate that the outcome will impact growth in 2017.

Despite the political upheaval in Europe economic growth has been decent, jobs have been created and consumer confidence has been growing. But with two elections coming up, we think the next quarter will be very important in determining the future health of the EU, and whether it's time to look for opportunities to invest or to be bearish.

Overall we are slightly bullish on equity markets. But much of this depends on whether Trump can deliver on his promise to stimulate the U.S. economy.

Source: Bloomberg. Data as of March 31, 2017. Total return in C\$ or as indicated.

PORTFOLIO REVIEW

Sun Life Granite Moderate Portfolio rose 2.9% in Q1.

The portfolio benefitted from the continuing strength in equity markets that spilled over from 2016. This included U.S. equities which rose in part on strong economic forecasts and the possible adoption of a broad economic stimulus program in the U.S.

Gains in the portfolio were further enhanced by maintaining an underweight to bonds and REITS, as well as through the use of bullish option strategies and increasing the weighting in equities globally.

To mitigate some of the volatility that may occur if U.S. fiscal stimulus is not implemented this year, protective near-term option strategies involving U.S. equities and U.S. bonds were employed near the end of the quarter.

CONTRIBUTORS

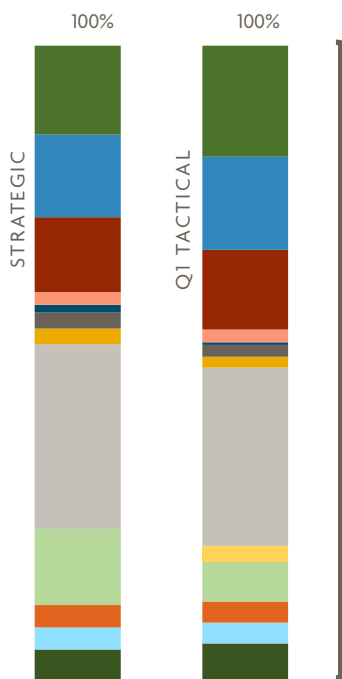
- Underweight bonds, overweight equities and bullish option strategies
- Underweight global REITs, overweight U.S. and Canadian equities

DETRACTORS

- Significantly underweight infrastructure equities
- Slightly underweight emerging market debt
- Slightly underweight global high yield bonds

Q1 ASSET ALLOCATION

ALLOCATION DETAILS AS OF MARCH 31, 2017



ASSET CLASS	STRATEGIC %	TACTICAL %	TACTICAL OVER/UNDER	TACTICAL CHANGE FROM PRIOR QUARTER
Canadian equity	14.0	17.6	+3.6	+0.1
U.S. equity	13.0	14.7	+1.7	-0.3
Int'l equity	11.8	12.6	+0.8	+2.6
EM equity	2.0	2.0	-	-0.3
Global equity	1.2	0.4	-0.8	-0.1
Global real estate	2.5	1.9	-0.6	+0.6
Global infrastructure	2.5	1.7	-0.8	-0.1
Canadian bonds	29.0	28.2	-0.8	-0.8
U.S. bonds	0.0	2.5	+2.5	-
Global bonds	12.0	6.3	-5.7	+1.3
EM bonds	3.5	3.3	-0.2	-
High yield bonds	3.5	3.3	-0.2	-
Cash	5.0	6.0	+1.0	-3.2
Totals: May be rounded	100	100	+0.5 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

- Overweight U.S. financials and Canadian energy
- Increased weighting in emerging market and international equities to neutral
- Options strategies used to reduce potential volatility in U.S. equities and benefit from short-term strength in U.S. Treasuries

Markets rallied when U.S. President Donald Trump came to power promising to deliver a large economic stimulus program and that momentum carried over into the first quarter of 2017. We had moved to a slight overweight position in U.S. equities ahead of Trump's election.

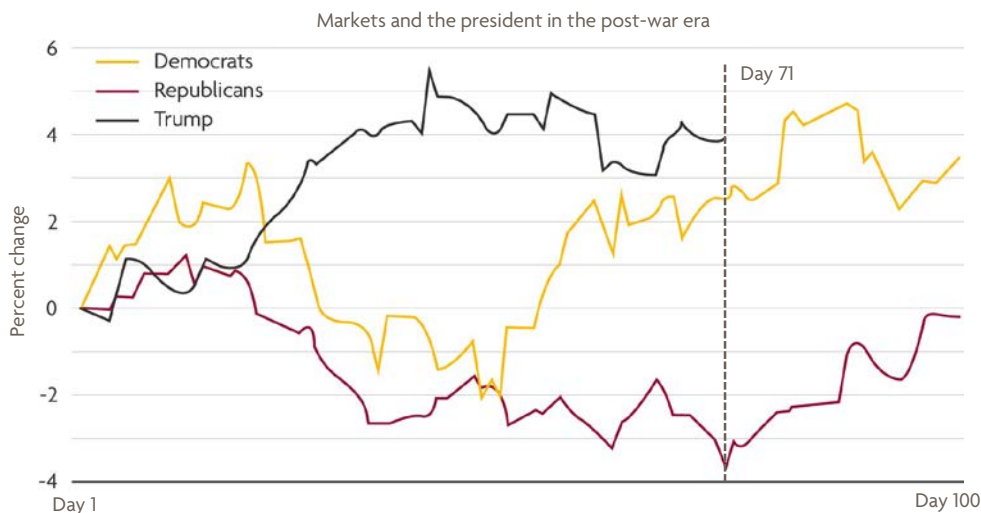
But we are also being cautious and adopted protective option strategies near the end of the quarter to mitigate potential volatility in U.S. equities as valuations briefly got ahead of themselves. We are also concerned that Trump's economic stimulus program may not be implemented until next year.

While moderately bullish on U.S. stocks, we are neutral on international equities given developments involving Brexit and the uncertain political environment with elections coming up in France and Germany. We are not concerned about an anti-EU party rising in Germany, but in France polls show Marine Le Pen's anti-EU platform gaining support. We don't expect Le Pen to win, but if she does European markets may be hurt. We will be looking for opportunities to capitalize on potential volatility associated with the French elections.

We are generally neutral on the Canadian economy but continue to be overweight financials as well as the energy sector. We believe these sectors should benefit from a steepening yield curve and higher oil prices by the end of the year.

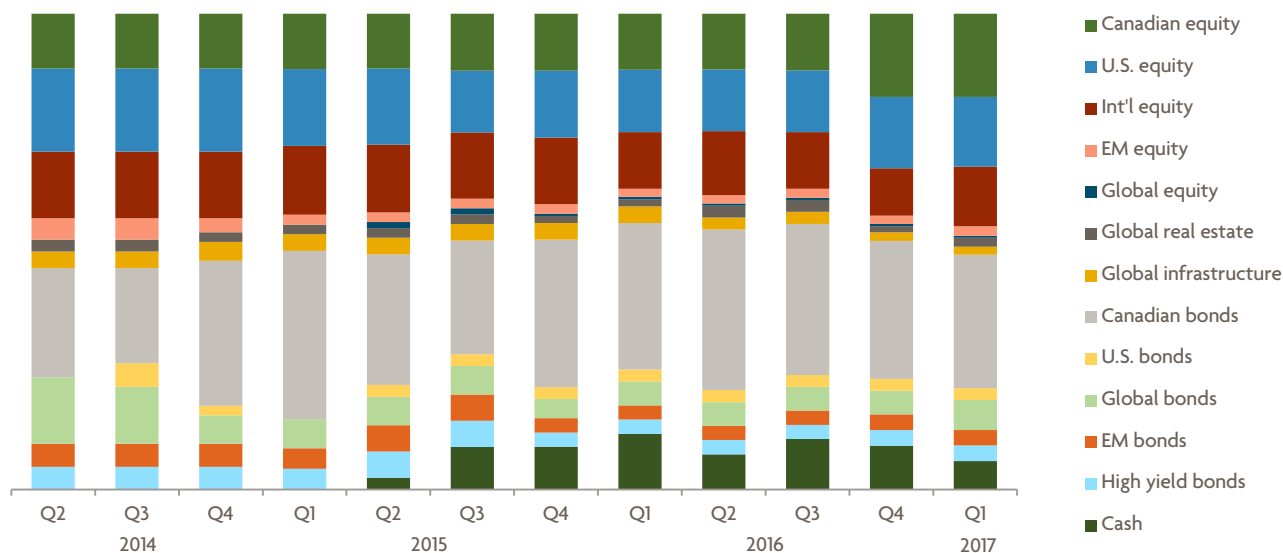
After a surge in late 2016, Canadian bond yields fell in Q1 with the yield on Canadian 10-year government bond starting the quarter at 1.87% and ending at 1.63%. Similarly, yields on U.S. 10-year Treasuries moved lower from 2.63% to 2.39%. Lower yields were tied to weakness in economic data and the increased likelihood that Trump's economic stimulus program won't be implemented as quickly as many market participants had thought. But we still expect both Canadian and U.S. yields to move higher by the end of year, possibly significantly depending on global developments.

HOW MARKETS REACT TO A NEW U.S. PRESIDENT OVER THE FIRST 100 DAYS



Source: Bloomberg. Data as of March 31, 2017. Values indexed to 0 on day 1 of first 100 days. Returns were calculated by averaging the percentage daily change in the S&P 500 over the first 100 days of each president's administration going back to Dwight Eisenhower's inauguration on January 20, 1953.

TACTICAL ALLOCATIONS - HISTORY



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

PORTFOLIO RETURNS % SERIES A					
Q1	1YR	3YR	5YR	SINCE INCEPTION	INCEPTION DATE
2.9	7.4	5.6	7.0	7.2	January 17, 2012

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