

Tactical Update

FEBRUARY 2018 | Opinions as of March 5, 2018

The views expressed in this tactical update apply broadly to all Sun Life Granite Managed Portfolios, whereas the tactical highlights and allocation data in the chart below are specific to Sun Life Granite Balanced Portfolio. For the latest information about other Sun Life Granite Managed Portfolios, including Sun Life Granite Managed Income Portfolios, please refer to our quarterly fund reviews published at sunlifeglobalinvestments.com.

February was a month of market extremes: a sudden 10.2% correction in the S&P 500 followed by snap-back rallies and waves of volatility. Even though the market continues to struggle, we don't believe the fundamentals underlying the market have changed, and see the pullback as a buying opportunity.

In January when sentiment indicators turned excessively bullish, we used options to hedge our equity exposure and took profits when the market tumbled in February. We then increased our equity weighting across the board, adding exposure to U.S., European and emerging market equities – again using an options strategy to reduce risk.

Our positive outlook rests in part on fundamentals. The U.S. economy, buoyed by tax cuts, should continue to perform well. At the same time, the European economy continues to strengthen and the global economy is expected to grow by a robust 3.7% in 2018.

Given the lower valuations and economic strength, we have an overweight position in U.S. and European equities. (Italians went to the polls on March 4, and we are closely following the impact on the market.)

We are also slightly positive on emerging markets. However, part of the reason we have a small overweight, is our concern over trade disputes and North Korea's nuclear weapons program.

While we see strength worldwide, Canada's economy faces risks from higher consumer debt levels, overvalued real estate and uncertainty surrounding NAFTA. Until some of these issues are resolved, we remain underweight to Canadian equities.

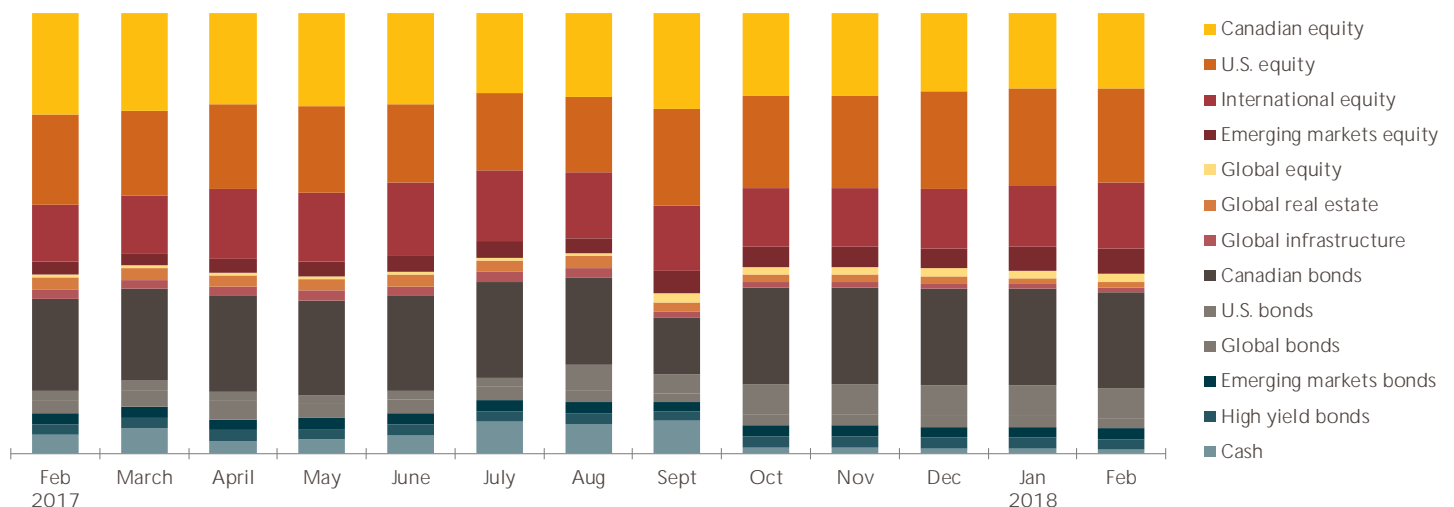
TACTICAL HIGHLIGHTS

CHANGE

RATIONALE

| | | |
|--|---|---|
| Overweighted exposure to U.S. equities | ➤ | To take advantage of lower valuations in the correction |
| Overweighted exposure to European equities | ➤ | Possible greater multiple expansion than with U.S. equities |
| Added to underweight in real estate | ➤ | See better opportunities in other equity classes |
| Continued to underweight exposure to Canadian equities | ➤ | Economy faces a number of threats, including on the trade front |

TACTICAL ALLOCATIONS | Sun Life Granite Balanced Portfolio



Allocations are as of month-end and subject to change without notice.

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. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

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