FUND REVIEW Q2 2020 | Opinions as of June 30, 2020

Sun Life Granite Managed Portfolios

MANAGEMENT COMPANY

SLGI Asset Management Inc.

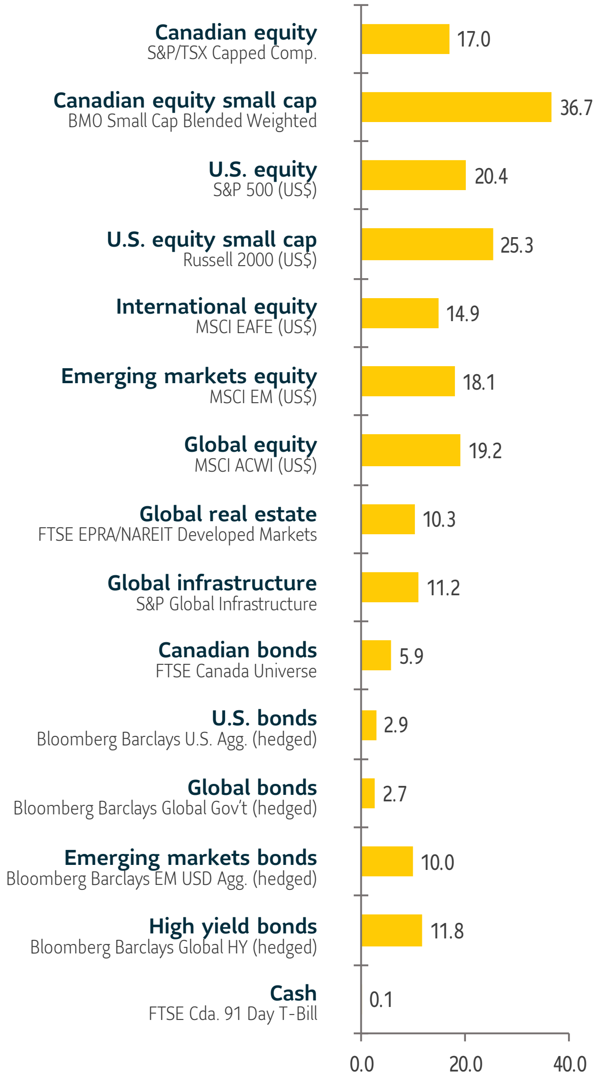
PORTFOLIO MANAGERS

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

HIGHLIGHTS

- Sun Life Granite Managed Portfolio returns were positive in Q2
- Added to overweight position in U.S. equities
- Throughout the quarter moved from underweight EAFE equities to neutral
- Added to underweight position in Canadian equities
- Maintained overweight in emerging markets equites
- Added high yield corporate bonds

MARKET RETURNS



Source: Bloomberg. Data as of June 30, 2020.
Total return in C$ or as indicated.

OUTLOOK

March ended with the S&P 500 in the grip of a bear market as COVID-19 spread and the U.S. economy crumbled, leaving nearly 23 million Americans unemployed. In Q2, the market soared on massive monetary and fiscal stimulus, with the S&P 500 gaining nearly 20% in its best quarter since 1998. This, even as COVID-19 cases were surging across the U.S., with nearly 19 million Americans still out of work. Investors, buoyed by stimulus spending, rising job numbers and hopes for a vaccine, appeared willing to look beyond this grim reality to a rapid economic recovery – something that we believe is far from certain.

As COVID-19 continues to spread, it has left many questions in its wake. Could we see a second wave of infections across the world this fall, forcing another, even more problematic economic lockdown? Will there be widespread bankruptcies and how deep will the hit to corporate earnings be? As well, could there be permanent structural changes in the economy, with large numbers of workers left behind?

Clearly, many investors are looking out to 2021 and betting on an end to the COVID-19 crisis. But there are a number of issues, beyond the pandemic that will affect the pace of the recovery. For starters, the massive amount of fiscal and monetary stimulus that has fuelled the market rally could begin to slow next year. Congress may then attempt rein in the country's deficit spending with austerity measures. And instead of hiring, companies could cut workers in response to a drop in earnings. Given these issues, we expect increased market volatility in the months ahead with S&P 500 possibly correcting at some point.

With so much uncertainty, we held to our cautious view on equities in Q2, remaining slightly underweight. However, within our equity mix we increased our overweight position in U.S. equities, and maintained our overweight exposure to emerging market equities.

CONTRIBUTORS (+) & DETRACTORS (–)

References to "overweight" or "underweight" compare the current (tactical) allocation to the strategic allocations, as outlined in the Asset Allocation table below.

SUN LIFE GRANITE CONSERVATIVE & MODERATE PORTFOLIOS

+ Overweight U.S. equities
+ Investment style: overweight U.S. growth
+ Underweight real assets

– Underweight Canadian equities
– Overweight cash
– Underweight high yield bonds early in the quarter

SUN LIFE GRANITE BALANCED, BALANCED GROWTH & GROWTH PORTFOLIOS

+ Overweight U.S. equities
+ Investment style: overweight U.S. growth
+ Underweight real assets

– Underweight high yield bonds early in the quarter
– Underweight equities in general
– Overweight cash

SUN LIFE GRANITE INCOME & ENHANCED INCOME PORTFOLIOS

+ Underweight cash
+ Underweight real assets

– Underweight equities in general
– Investment style: global equites

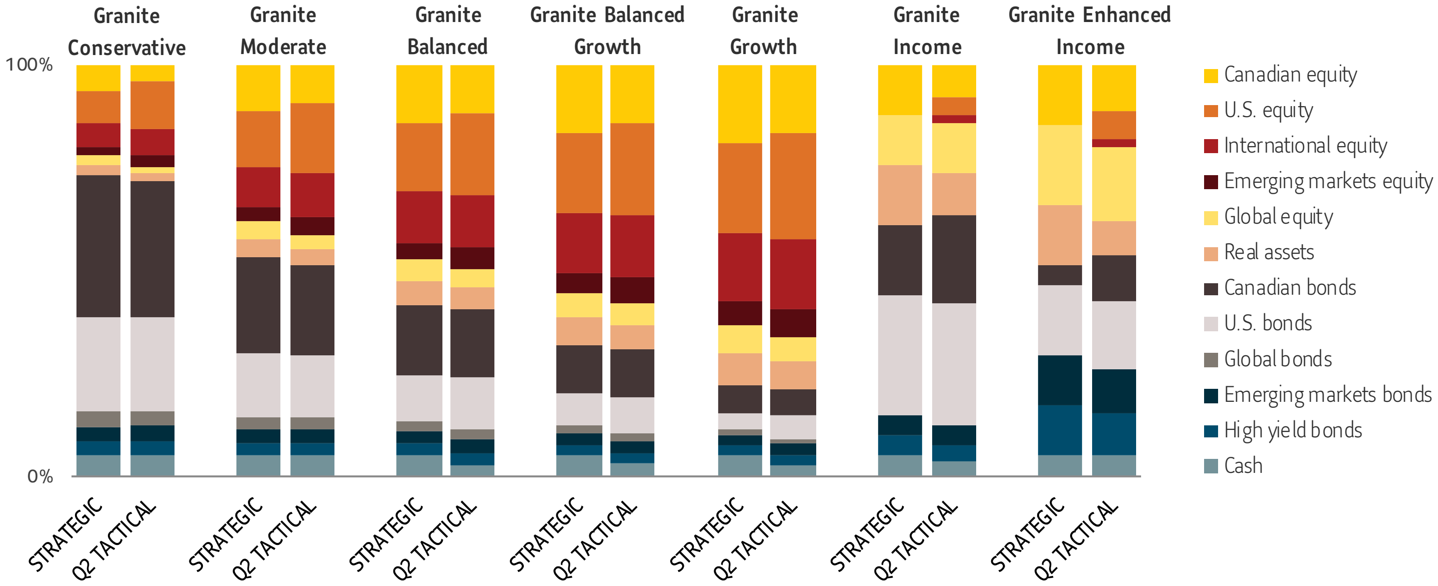
Q2 ASSET ALLOCATION (%)

Portfolio		Canadian equity	U.S. equity	International equity	Emerging markets equity	Global equity	Real assets	Canadian bonds	U.S. bonds	Global bonds	Emerging markets bonds	High yield bonds	Cash
Granite Conservative	STRATEGIC	6.6	7.7	5.7	1.9	2.4	2.7	34.4	22.9	3.8	3.5	3.5	5.0
	TACTICAL	4.2	11.5	6.2	3.0	1.6	1.8	33.1	22.6	3.5	3.9	3.2	5.3
Granite Moderate	STRATEGIC	11.4	13.3	10.0	3.3	4.2	4.7	23.2	15.4	3.0	3.2	3.2	5.0
	TACTICAL	9.2	17.2	10.6	4.5	3.5	3.8	21.7	15.3	2.8	3.6	2.9	5.0
Granite Balanced	STRATEGIC	14.6	17.0	12.8	4.3	5.4	6.0	17.4	11.6	2.5	3.0	3.0	2.5
	TACTICAL	11.7	19.9	12.7	5.5	4.4	5.0	16.8	12.4	2.4	3.3	3.0	2.8
Granite Balanced Growth	STRATEGIC	17.0	19.9	14.9	5.0	6.3	7.0	11.9	8.0	2.0	2.8	2.8	2.5
	TACTICAL	14.2	22.6	15.0	6.3	5.4	5.8	11.5	8.9	1.7	3.0	2.7	3.0
Granite Growth	STRATEGIC	19.4	22.7	17.0	5.7	7.2	8.0	6.6	4.4	1.5	2.5	2.5	2.5
	TACTICAL	16.6	25.6	17.1	6.9	6.2	6.7	6.4	5.5	1.2	2.7	2.4	2.7
Granite Income	STRATEGIC	12.5	0.0	0.0	0.0	12.5	15.0	17.5	30.0	0.0	5.0	5.0	2.5
	TACTICAL	7.8	4.3	1.9	0.0	12.3	10.0	21.4	29.6	0.0	5.0	3.9	3.7
Granite Enhanced Income	STRATEGIC	15.0	0.0	0.0	0.0	20.0	15.0	5.0	17.5	0.0	12.5	12.5	2.5
	TACTICAL	11.4	6.7	2.0	0.0	17.9	8.5	10.9	16.6	0.0	10.6	10.3	5.1

Data as at June 30, 2020.

The table above provides the long-term portfolio allocations (strategic) and short term (tactical) allocation weights for each asset class, showing to what degree the tactical allocation is different from the strategic allocation. The coloured columns in the graph on page 3 provide an at-a-glance comparison of long-term portfolio allocations (strategic) to current, short-term allocations (tactical). 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.

Q2 TACTICAL ALLOCATIONS



KEY TACTICAL CHANGES

- In Q2, with markets rallying, and with massive stimulus in the U.S., we added to our overweight position in U.S. equities.
- With China's economy continuing to recover, we maintained our overweight position in emerging market equities.
- Increased our underweight position in Canadian equities, with COVID-19 and oil price shock complicating Canada's economic recovery.
- With COVID-19 under control and massive EU stimulus package, moved from underweight to neutral in EAFE equities.
- Added high yield corporate bonds as stimulus came in with support and spreads started to narrow.

In Q1, COVID-19 battered the economy, triggering a bear market. In Q2, major equity markets, buoyed by massive economic stimulus programs, pared back those losses. However, we remain cautious. And at quarter end, we were slightly underweight equities, but still overweight U.S. and emerging market stocks.

The U.S., was the world's strongest economy heading into the COVID-19 crisis. The U.S. market and economy have been supported by the U.S. Federal Reserve's asset buy-back program and its move to cut its key interest rate to zero. As well, Congress has put in place over $1 trillion in stimulus spending. As a result, we believe the U.S. could be strongest economy coming out of the pandemic.

In terms of investment styles, we favoured U.S. growth over value as the market rallied. We now believe value could play catch-up, and added call options on U.S. financials where we see long-term potential. We also bought call options on oil as prices rebounded.

As noted, we maintained our overweight position in emerging markets. Overall, we are concerned that some emerging market countries may have difficulty reopening their economies. As well, others, including Brazil and India, have failed to contain the COVID-19 outbreak. We favour China, which appears to have the epidemic under control; its economy is slowly picking up and has introduced new stimulus measures.

The European Central Bank responded to the pandemic by increasing its quantitative-easing program. And the EU agreed in May to introduce a US$826 billion economic stimulus program. With added stimulus and the virus largely under control, the Eurozone economy may continue to improve. In anticipation of this, we moved from underweight to neutral position in EAFE equities.

The Canadian economy was hit by both the COVID-19 selloff and falling oil prices. Partly as a result, job losses in Canada were deeper than they were in the U.S. and the economy is expected to contract by more than 6% this year. Further, consumer spending, accounts for nearly 60% of economic activity in Canada. But Canadians, with near record personal debt levels, have little room to increase consumption. This suggests the economic recovery may be more drawn out in Canada than the U.S., and we added to our underweight position.

In fixed income, we maintained our exposure to U.S. Treasuries and Canadian bonds. However, we continue to favour high yield corporate bonds. Fear of bankruptcies as the economy contracted, knocked down the price of corporates. But we expect spreads to contract as risk eases and the Fed continues to buy corporate bonds.

PERFORMANCE (%)

		SINCE INCEPTION*	7 YEAR	5 YEAR	3 YEAR	1 YEAR	Q2
Sun Life Granite Conservative Portfolio							
	Series A	4.1	4.1	2.7	2.4	0.9	6.8
	Series F	5.0	5.0	3.6	3.3	1.8	7.0
Sun Life Granite Moderate Portfolio							
	Series A	5.5	5.2	3.3	2.7	0.3	8.5
	Series F	6.7	6.4	4.5	3.9	1.5	8.8
Sun Life Granite Balanced Portfolio							
	Series A	6.3	6.0	3.8	3.2	0.5	9.4
	Series F	7.4	7.2	4.9	4.4	1.7	9.7
Sun Life Granite Balanced Growth Portfolio							
	Series A	6.9	6.6	4.1	3.4	0.2	10.1
	Series F	8.1	7.8	5.2	4.6	1.4	10.4
Sun Life Granite Growth Portfolio							
	Series A	7.5	7.2	4.3	3.6	0.0	10.9
	Series F	8.8	8.4	5.5	4.9	1.2	11.2
Sun Life Granite Income Portfolio							
	Series A	3.7	4.1	2.3	1.7	-0.8	8.2
	Series F	4.6	5.0	3.2	2.6	0.1	8.4
Sun Life Granite Enhanced Income Portfolio							
	Series A	3.4	3.7	1.5	0.6	-3.4	8.1
	Series F	4.5	4.8	2.7	1.8	-2.3	8.5

Returns for perioids longer than one year are annualized. Data as at June 30, 2020.

*Inception date for all portfolios is January 17, 2012, with the exception of Sun Life Granite Conservative Portfolio, which is April 2, 2012. On April 2, 2012, Sun Life Granite Conservative Portfolio underwent a merger that was a material change for the fund under applicable securities laws. As a result of this change, we are only permitted to show performance information for periods after the date of the merger.

Series A securities of the fund are available for purchase to all investors, while Series F securities are only available to investors in an eligible fee-based or wrap program with their registered dealer. While Series A and Series F securities have the same reference portfolio, any difference in performance between these series is due primarily to differences in management fees and operating fees. The management fee for Series A securities includes the trailing commission, while Series F securities does not. Investors in Series F securities may pay a separate fee-based account fee that is negotiated with and payable to their registered dealer.

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.

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Sun Life Global Investments

Sun Life Global Investments
1 York Street, Toronto, Ontario M5J 0B6
T: 1.877.344.1434 | E: info@sunlifeglobalinvestments.com
sunlifeglobalinvestments.com/Commentary

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