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# SUN LIFE GLOBAL INVESTMENTS (CANADA) INC.

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## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

for the financial year ended December 31, 2016

Sun Life Granite Conservative Portfolio



# Sun Life Granite Conservative Portfolio

This annual management report of fund performance contains financial highlights but does not contain the complete financial statements of the investment fund. You can request a free copy of the annual financial statements by calling 1-877-344-1434, by sending an email to us at [info@sunlifeglobalinvestments.com](mailto:info@sunlifeglobalinvestments.com) or by writing to us at Sun Life Global Investments (Canada) Inc., 150 King Street West, Toronto, Ontario, M5H 1J9. Our financial statements are available on our website at [www.sunlifeglobalinvestments.com](http://www.sunlifeglobalinvestments.com) and on SEDAR at [www.sedar.com](http://www.sedar.com). All of the financial information is calculated based on the pricing Net Asset Valuation for the investment fund, unless otherwise stated.

Unitholders may also contact us using one of these methods to request a copy of the investment fund's proxy voting policies and procedures, proxy voting disclosure record or quarterly portfolio disclosure.

## MANAGEMENT DISCUSSION OF FUND PERFORMANCE

### Investment Objectives and Strategies

The fundamental objective of the Sun Life Granite Conservative Portfolio (the "Portfolio") is to seek income and capital appreciation, with a bias towards income, by investing primarily in fixed income mutual funds and, to a lesser extent, equity mutual funds.

In pursuing the Portfolio's investment objective, the portfolio manager typically invests between 63% and 83% of the Portfolio's assets in fixed income mutual funds and between 17% and 37% of the Portfolio's assets in equity mutual funds. The portfolio manager uses an asset allocation strategy to determine the balance between the portion of the Portfolio invested in equity mutual funds and the portion of the Portfolio invested in fixed income mutual funds. The equity portion of the Portfolio typically has exposure to Canadian equity securities, U.S. equity securities and international equity securities. The fixed income portion typically selects fixed income mutual funds with exposure to Canadian debt instruments and global debt instruments.

### Risk

There were no changes in the Portfolio's investment objective or strategy during the period which materially impacted the overall level of risk in the Portfolio. The risks associated with investing in the Portfolio remain as outlined in the Portfolio's Simplified Prospectus.

### Results of Operations

During the period the net asset value of the Portfolio increased from \$489.8 million to \$891.1 million. The increase in net asset value was attributable to positive net sales, as well as positive performance during the period.

During the period, the Portfolio returned 2.2% for Series A units. This result lagged the Portfolio's benchmark, which returned 2.9%. The blended benchmark is comprised of 40.5% Canadian bonds (FTSE TMX Canada Universe Bond index), 10.0% Cash (FTSE TMX Canada 91 Day T-Bill Index), 22.5% Global bonds (JPM GBI Global Hdg C\$ Index), 8.0% Canadian equities (S&P/TSX Capped Composite Index), 19.0% Global

equities (MSCI World C\$ Index). The performance returns for other series of this Portfolio are similar to those of Series A except for differences in expense structures. Please refer to the 'Past Performance' section of this report for performance of each series.

With higher energy prices Sun Life Global Investments (Canada) Inc. (the "Manager") reduced the Portfolio's Energy weighting and used the proceeds to increase exposure to the broader Canadian equity market. The Manager moved to neutral on U.S. equities and had a slightly underweight to neutral position on global and international equities. While continuing to underweight Emerging Market equities, the Manager was overweight India, which continued to deliver strong growth.

The Manager continued to deploy a defensive strategy while waiting for investment opportunities to emerge. In the meantime, cash-secured puts were used to generate better potential returns for the Portfolio.

Equity markets dropped sharply in the first quarter of 2016 before a strong bounce back in the second half. Canadian equities were one of the brighter spots, while the U.S. market failed to reach another new high. The European Central Bank's decision to lower interest rates in the first quarter and increase the amount of Quantitative Easing, did not trigger as much positive momentum in European markets as was anticipated.

In the second quarter, Britain's decision to leave the European Union ("Brexit") sent equity markets around the world into a tailspin. European markets felt the greatest pain, dropping by almost 9% the day after the vote. U.S. equity markets also took a hit before bouncing back a few days later.

The raging forest fires that destroyed parts of Fort McMurray had a negative impact on the overall economy. However, a timely surge in oil prices helped stabilize Canada's economy, giving Energy companies and the Bank of Canada some much needed breathing room.

In the third quarter, markets moved sharply higher. International and Emerging Markets played catch up and were among the stronger markets. The uncertainty caused by Brexit continued, and the Manager underweighted European equities.

# Sun Life Granite Conservative Portfolio

The Canadian economy continued to perform poorly in the third quarter, and the Bank of Canada left interest rates unchanged. The U.S. economy continued to perform well, but there were signs of a slowdown. There was growing uncertainty in the U.S. over the future direction of interest rates and who would be the next president, and the Manager maintained a slight underweight position on U.S. equities.

In the fourth quarter, equity markets in many developed countries rallied following President Donald Trump's promise to stimulate the U.S. economy by cutting taxes and increasing spending on defense and infrastructure. With Republicans in control of Congress, the Manager felt that much of the president's economic agenda might be implemented and moved from a small underweight to an overweight position on U.S. equities.

Despite Canada's sluggish economic growth, the S&P/TSX Composite Index was one of the best performers among developed equity markets in 2016, finishing the year up 21.1% on a total return basis. The Manager believes Canada's struggling Energy sector should benefit from the decision by the Organization of the Petroleum Exporting Countries ("OPEC") to cut oil production. To capitalize on this, the Manager moved to an overweight in Canadian equities, specifically in the Energy sector. Part of the overweight consisted of covered put options that were sold to manage risk and generate income from the premiums.

The U.S. Federal Reserve raised interest rates by a quarter of a percent to 0.50% in the fourth quarter, and hinted at more rate hikes to come in 2017. The U.S. Federal Reserve's hike and Trump's election, led to one of the greatest spikes in bond yields in decades.

If President Donald Trump is successful in implementing his pro-growth agenda, it could be positive for U.S. equity markets. In anticipation of this, the Manager moved to a slight overweight in U.S. equities. As well, the Manager moved from neutral to a small overweight position in Canadian equities, partly on the U.S. growth outlook and OPEC's decision to cut oil production.

## Recent Developments

In anticipation of stronger U.S. economic growth, the Manager shifted from neutral to an overweight in U.S. equities, and moved from neutral to a small overweight position in Canadian equities, partly on the U.S. growth outlook and OPEC's decision to cut oil production.

The Manager reduced exposure to Canadian bonds which will likely struggle again in 2017. However, while still underweight the Manager added high yield and Emerging Market bonds.

At the end of the period the Portfolio's equity/fixed income allocation remained largely unchanged at 28.8%/71.2%.

Effective February 5, 2016, all Series E units were re-designated to Series A units, under the Front End Sales Charge option, of the same Portfolio. Please refer to the Portfolio's simplified prospectus for more details about the captioned change and for details about the Private Client Program.

## Related Party Transactions

Sun Life Global Investments (Canada) Inc. (the "Manager") is the manager, trustee and portfolio manager of the Portfolio.

The Manager is responsible for the provision of all general management and administrative services required by the Portfolio in its day-to-day operations, including providing or arranging for the provision of investment advice, bookkeeping, recordkeeping and other administrative services for the Portfolio.

As trustee, the Manager holds legal title to the Portfolio's investments in trust for unitholders. For its services, the Manager receives a management fee that is calculated as a percentage of the average net asset value of the Portfolio. This fee is calculated daily and payable monthly.

As portfolio manager, the Manager is responsible for managing the investment portfolio of the Portfolio directly or through sub-advisors.

The Manager is an indirect wholly owned subsidiary of Sun Life Financial Inc.

## Fund Administrative Expenses

The Manager pays certain of the operating expenses of each fund (the "Administration Expenses") in return for a fixed administration fee paid to the Manager by each fund ("Administration Fee"). The Administration Fee is based on the net asset value of each series of the Portfolio. The Administration Expenses include, but are not limited to, record keeper fees, accounting, audit and legal fees, bank and interest charges, safekeeping and custodial fees, taxes, administrative and systems costs, costs of reports to investors, prospectuses and other disclosure documents, regulatory filing fees (including those incurred by the Manager) and trustee fees for registered plans. The amount of this charge is disclosed as a fund administrative expense in the Portfolio's Statement of Comprehensive Income found in the annual financial statements (audited).

Each fund also pays certain operating expenses directly (the "Fund Costs"). Fund Costs include: borrowing costs incurred by the Portfolio from time to time; costs in connection with portfolio transactions; fees and expenses payable to or in connection with the Portfolio's Independent Review Committee ("IRC"); taxes payable by the Portfolio; and the costs of complying with any new regulatory or legal

# Sun Life Granite Conservative Portfolio

requirement imposed on the Portfolio. Each fund allocates Fund Costs proportionately among its series of units. The Fund Costs that are specific to a series of units are allocated to that series. These amounts are paid out of the assets attributed to each series of units of the Portfolio, which reduces the return you may receive.

## Series Description

The Portfolio offers the following series of units: A, T5, F, I and O. The date of creation for Series A, T5, F, and I units was January 17, 2012 and the date of creation for Series O units was April 1, 2014.

Series A and T5 units are available to all investors.

Series T5 units are designed to provide investors with a fixed monthly distribution based on a target annualized distribution rate of 5% of the net asset value per unit at the end of the prior year.

Series F units are available to investors who have a fee-based account with their dealer and whose dealer has signed an agreement with the Manager. Instead of paying sales charges, investors buying Series F units pay fees to their dealer for investment advice and other services. The Manager does not pay any commissions to dealers in respect of Series F units, so the Manager can charge a lower management fee.

Series I units are special purpose securities that are currently only available to other mutual funds and eligible institutional investors. Series I units are not sold to the general public. Each Series I investor negotiates its own management and advisory fee that is paid directly to the Manager.

Series O units are available to investors through the Private Client program and must be purchased through a Private Client account. Each Series O investor pays a management fee directly to the Manager and is eligible for management fee reductions, if any, based on the value of Series O units held in the investor's Private Client account. Series O management fees are paid, after subtracting any management fee reductions, by a redemption of Series O units in the investor's account.

## FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Portfolio and are intended to help you understand the Portfolio's financial performance from the date of inception to December 31, 2016.

### The Portfolio's Net Asset Value per Unit (\$) <sup>(1)(4)</sup>

#### Sun Life Granite Conservative Portfolio – Series A

	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Net asset value, beginning of period	11.14	11.03	10.63	10.23	10.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.50	0.35	0.36	0.35	0.29
Total expenses	(0.22)	(0.22)	(0.22)	(0.20)	(0.18)
Realized gains (losses) for the period	0.03	0.36	0.35	0.16	0.03
Unrealized gains (losses) for the period	–	(0.19)	0.24	0.48	0.26
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.31</b>	<b>0.30</b>	<b>0.73</b>	<b>0.79</b>	<b>0.40</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.15)	(0.07)	(0.11)	(0.20)	(0.14)
From dividends	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
From capital gains	(0.09)	(0.27)	(0.24)	(0.15)	(0.01)
Return of capital	–	–	–	(0.01)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.25)</b>	<b>(0.35)</b>	<b>(0.36)</b>	<b>(0.38)</b>	<b>(0.17)</b>
<b>Net asset value, end of period</b>	<b>11.14</b>	<b>11.14</b>	<b>11.03</b>	<b>10.63</b>	<b>10.23</b>

#### Sun Life Granite Conservative Portfolio – Series T5

	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Net asset value, beginning of period	14.82	15.24	14.92	14.71	15.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.68	0.47	0.48	0.49	0.45
Total expenses	(0.28)	(0.30)	(0.30)	(0.28)	(0.27)
Realized gains (losses) for the period	0.05	0.47	0.49	0.23	0.07
Unrealized gains (losses) for the period	(0.07)	(0.18)	0.33	0.65	0.50
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.38</b>	<b>0.46</b>	<b>1.00</b>	<b>1.09</b>	<b>0.75</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.58)	(0.66)	(0.19)	(0.36)	(0.83)
From dividends	(0.03)	–	–	–	(0.03)
From capital gains	(0.16)	(0.37)	(0.41)	(0.25)	(0.01)
Return of capital	(0.02)	(0.02)	(0.15)	(0.26)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.79)</b>	<b>(1.05)</b>	<b>(0.75)</b>	<b>(0.87)</b>	<b>(0.87)</b>
<b>Net asset value, end of period</b>	<b>14.35</b>	<b>14.82</b>	<b>15.24</b>	<b>14.92</b>	<b>14.71</b>

# Sun Life Granite Conservative Portfolio

## Sun Life Granite Conservative Portfolio – Series F

	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Net asset value, beginning of period	11.34	11.23	10.79	10.30	10.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.60	0.36	0.37	0.36	0.27
Total expenses	(0.12)	(0.12)	(0.12)	(0.11)	(0.10)
Realized gains (losses) for the period	0.04	0.35	0.36	0.17	0.02
Unrealized gains (losses) for the period	(0.10)	(0.26)	0.23	0.41	0.23
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.42</b>	<b>0.33</b>	<b>0.84</b>	<b>0.83</b>	<b>0.42</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.24)	(0.16)	(0.17)	(0.21)	(0.15)
From dividends	(0.01)	(0.01)	(0.02)	(0.02)	(0.02)
From capital gains	(0.10)	(0.28)	(0.24)	(0.15)	(0.01)
Return of capital	(0.01)	–	(0.01)	(0.01)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.36)</b>	<b>(0.45)</b>	<b>(0.44)</b>	<b>(0.39)</b>	<b>(0.18)</b>
<b>Net asset value, end of period</b>	<b>11.33</b>	<b>11.34</b>	<b>11.23</b>	<b>10.79</b>	<b>10.30</b>

## Sun Life Granite Conservative Portfolio – Series I

	2016 (\$)	2015 (\$)	2014 (\$)	2013 (\$)	2012 (\$)
Net asset value, beginning of period	11.59	11.47	10.99	10.39	10.00
<b>Increase (decrease) from operations:</b>					
Total revenue	0.52	0.38	0.36	0.33	0.32
Total expenses	–	–	–	–	–
Realized gains (losses) for the period	0.04	0.39	0.36	0.17	0.05
Unrealized gains (losses) for the period	(0.05)	(0.14)	0.28	0.50	0.35
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.51</b>	<b>0.63</b>	<b>1.00</b>	<b>1.00</b>	<b>0.72</b>
<b>Distributions:</b>					
From income (excluding dividends)	(0.30)	(0.26)	(0.25)	(0.22)	(0.16)
From dividends	(0.01)	(0.02)	(0.02)	(0.02)	(0.02)
From capital gains	(0.10)	(0.29)	(0.25)	(0.15)	(0.01)
Return of capital	(0.01)	(0.01)	(0.01)	(0.01)	–
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.42)</b>	<b>(0.58)</b>	<b>(0.53)</b>	<b>(0.40)</b>	<b>(0.19)</b>
<b>Net asset value, end of period</b>	<b>11.64</b>	<b>11.59</b>	<b>11.47</b>	<b>10.99</b>	<b>10.39</b>

## Sun Life Granite Conservative Portfolio – Series O

	2016 (\$)	2015 (\$)	2014 (\$)
Net asset value, beginning of period	10.17	10.07	10.00
<b>Increase (decrease) from operations:</b>			
Total revenue	0.44	0.36	0.38
Total expenses	(0.02)	(0.02)	(0.02)
Realized gains (losses) for the period	0.03	0.37	0.36
Unrealized gains (losses) for the period	(0.03)	(0.30)	0.12
<b>Total increase (decrease) from operations<sup>(2)</sup></b>	<b>0.42</b>	<b>0.41</b>	<b>0.84</b>
<b>Distributions:</b>			
From income (excluding dividends)	(0.25)	(0.22)	(0.22)
From dividends	(0.01)	(0.02)	(0.02)
From capital gains	(0.09)	(0.25)	(0.22)
Return of capital	(0.01)	(0.01)	(0.01)
<b>Total annual distributions<sup>(3)</sup></b>	<b>(0.36)</b>	<b>(0.50)</b>	<b>(0.47)</b>
<b>Net asset value, end of period</b>	<b>10.21</b>	<b>10.17</b>	<b>10.07</b>

<sup>(1)</sup> This information is derived from the Portfolio's audited annual financial statements.

<sup>(2)</sup> Net Assets and distributions are based on the actual number of units outstanding at the relevant time. The increase/decrease from operations is based on the weighted average number of units outstanding over the financial period.

<sup>(3)</sup> Distributions were paid in cash, reinvested in additional units of the Portfolio, or both.

<sup>(4)</sup> Comparatives prior to 2013 are prepared in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Figures subsequent to 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS").

## Ratios and Supplemental Data<sup>(6)</sup>

### Sun Life Granite Conservative Portfolio – Series A

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	321,953,351	130,506,379	87,449,751	41,199,307	20,638,689
Number of units outstanding <sup>(1)</sup>	28,899,258	11,710,101	7,925,242	3,876,687	2,017,408
Management expense ratio (%) <sup>(2)</sup>	1.91	1.93	1.93	1.93	1.86
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	1.91	1.93	1.95	2.10	2.03
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.05	0.03	0.06
Portfolio turnover rate (%) <sup>(4)(5)</sup>	90.48	60.85	53.91	33.63	29.20
Net asset value per unit (\$) <sup>(1)</sup>	11.14	11.14	11.03	10.63	10.23

### Sun Life Granite Conservative Portfolio – Series T5

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	5,603,667	2,362,522	1,777,306	929,498	402,075
Number of units outstanding <sup>(1)</sup>	390,385	159,409	116,616	62,278	27,339
Management expense ratio (%) <sup>(2)</sup>	1.89	1.93	1.92	1.91	1.92
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	1.89	1.93	1.94	2.07	2.09
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.05	0.03	0.06
Portfolio turnover rate (%) <sup>(4)(5)</sup>	90.48	60.85	53.91	33.63	29.20
Net asset value per unit (\$) <sup>(1)</sup>	14.35	14.82	15.24	14.92	14.71

# Sun Life Granite Conservative Portfolio

## Sun Life Granite Conservative Portfolio – Series F

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	14,658,286	1,348,672	666,421	335,850	87,530
Number of units outstanding <sup>(1)</sup>	1,293,309	118,894	59,353	31,129	8,497
Management expense ratio (%) <sup>(2)</sup>	1.08	1.07	1.09	1.08	1.09
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	1.08	1.07	1.10	1.17	1.26
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.05	0.03	0.06
Portfolio turnover rate (%) <sup>(4)(5)</sup>	90.48	60.85	53.91	33.63	29.20
Net asset value per unit (\$) <sup>(1)</sup>	11.33	11.34	11.23	10.79	10.30

## Sun Life Granite Conservative Portfolio – Series I

	2016	2015	2014	2013	2012
Total net asset value (\$) <sup>(1)</sup>	505,650,469	275,721,213	162,990,433	104,599,941	77,045,365
Number of units outstanding <sup>(1)</sup>	43,437,993	23,791,023	14,208,992	9,521,149	7,414,696
Management expense ratio (%) <sup>(2)</sup>	0.04	0.06	0.06	0.04	0.08
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	0.04	0.06	0.06	0.05	0.25
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.05	0.03	0.06
Portfolio turnover rate (%) <sup>(4)(5)</sup>	90.48	60.85	53.91	33.63	29.20
Net asset value per unit (\$) <sup>(1)</sup>	11.64	11.59	11.47	10.99	10.39

## Sun Life Granite Conservative Portfolio – Series O

	2016	2015	2014
Total net asset value (\$) <sup>(1)</sup>	43,239,104	23,426,465	5,677,939
Number of units outstanding <sup>(1)</sup>	4,233,213	2,302,881	563,701
Management expense ratio (%) <sup>(2)</sup>	0.23	0.25	0.24
Management expense ratio before waivers or absorption (%) <sup>(2)</sup>	0.23	0.25	0.24
Trading expense ratio (%) <sup>(3)</sup>	0.02	0.04	0.05
Portfolio turnover rate (%) <sup>(4)(5)</sup>	90.48	60.85	53.91
Net asset value per unit (\$) <sup>(1)</sup>	10.21	10.17	10.07

<sup>(1)</sup> This information is provided as at December 31 of the period shown, as applicable.

<sup>(2)</sup> Management expense ratio is based on total expenses (excluding broker commissions and other portfolio transaction costs) including the Portfolio's allocated percentage of Fund-on-Funds' expenses for the stated period and is expressed as an annualized percentage of daily average Net Asset Value during the period. Prior to 2015, the Manager of the Portfolio waived some of its management fees and/or absorbed some expenses that would normally be charged to the Portfolio.

<sup>(3)</sup> The trading expense ratio represents total commissions and other portfolio transaction costs expressed as an annualized percentage of daily average Net Asset Value during the period.

<sup>(4)</sup> The Portfolio's portfolio turnover ratio indicates how actively the Portfolio's portfolio manager manages its portfolio investments. A portfolio turnover ratio of 100% is equivalent to the Portfolio buying and selling all of the securities in its portfolio once in the course of the year. The higher a Portfolio's portfolio turnover ratio in a year, the greater the trading costs payable by the Portfolio in the year, and the greater the chance of an investor receiving taxable capital gains in the year. There is not necessarily a relationship between a high portfolio turnover rate and the performance of the Portfolio.

<sup>(5)</sup> Percentages are annualized.

<sup>(6)</sup> Comparatives prior to 2013 are prepared in accordance with Canadian GAAP. Figures subsequent to 2013 are prepared in accordance with IFRS.

## Management Fees

The annual maximum management fee paid by the Portfolio is a percentage of the average daily net asset value of each series exclusive of any applicable taxes and operating expenses, which is accrued daily and is paid to the Manager monthly in arrears. Management fees pay for portfolio and investment advisory services, oversight of any service providers, marketing and promotional activities, arranging for the distribution and sale of securities of the Portfolio, general administration of fund operations and sales and trailing commissions paid to dealers.

The percentages and major services paid for out of the management fees are set out below:

	As a Percentage of Management Fees		
	Maximum Annual Management Fee Rate (%)	Dealer Compensation (%) <sup>1</sup>	General Administration, Investment Advice and Profit (%)
Series A Units	1.50	43	57
Series T5 Units	1.50	42	58
Series F Units	0.75	–	100
Series I Units	–	–	–
Series O Units <sup>2</sup>	0.75	–	100

<sup>1</sup> Includes sales and trailing commissions.

<sup>2</sup> Series O management fees are not paid by the Portfolio. Series O investors pay management fees directly to the manager.

## PAST PERFORMANCE

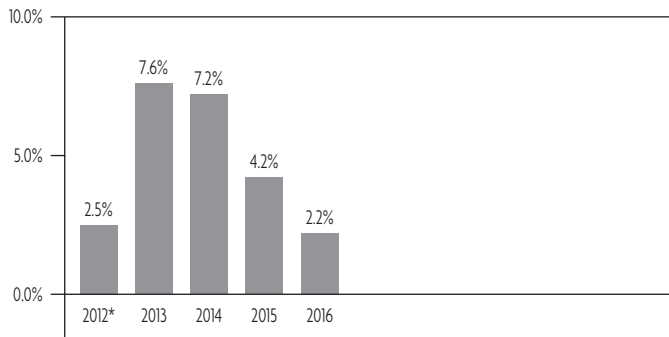
The indicated rates of return are the historical annualized and annual compounded total returns including changes in unit value and reinvestment of all distributions and do not take into account sales, redemption, distribution or optional charges or income taxes payable by any unitholder that would have reduced returns. Mutual funds are not guaranteed. How a fund performed in the past does not necessarily indicate how it will perform in the future.

## Year-by-Year Returns

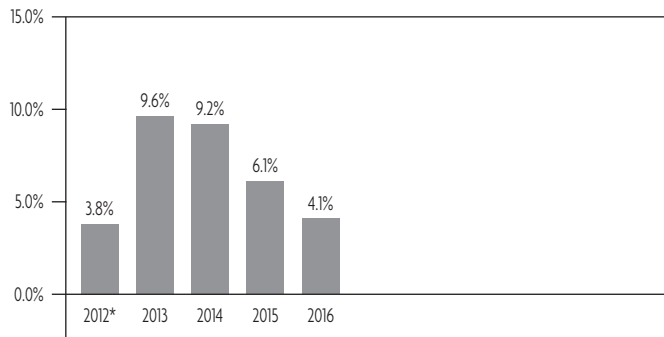
The following bar chart shows the Portfolio's annual performance for the period shown. The chart shows, in percentage terms, how much an investment made on the first day of each financial year would have grown or decreased by the last day of each financial year.

# Sun Life Granite Conservative Portfolio

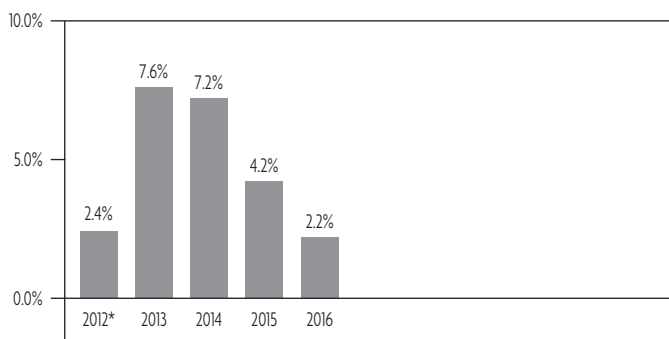
Series A Units – Annual return for the period ended December 31, 2016



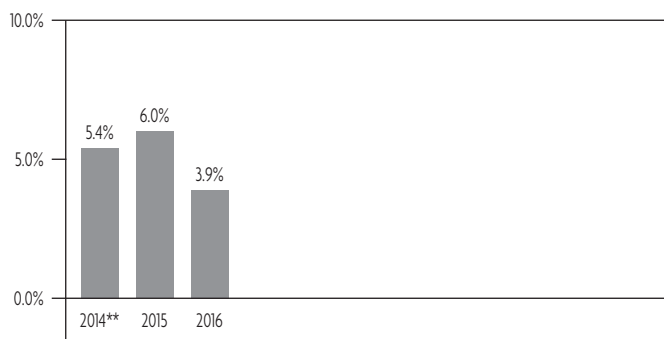
Series I Units – Annual return for the period ended December 31, 2016



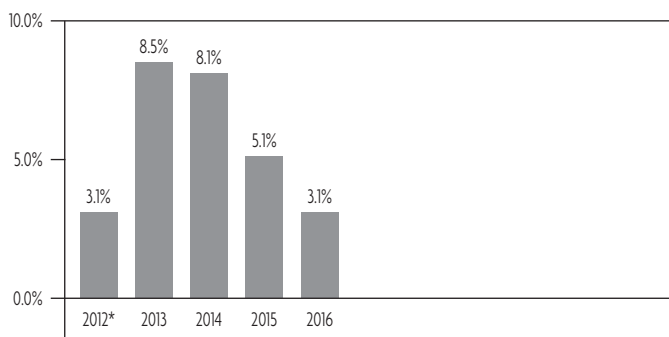
Series T5 Units – Annual return for the period ended December 31, 2016



Series O Units – Annual return for the period ended December 31, 2016



Series F Units – Annual return for the period ended December 31, 2016



\* for the period of April 2, 2012 to December 31, 2012.

\*\* for the period April 1, 2014 to December 31, 2014

## Annual Compound Returns

The following table compares the historical annual compound total returns of Series A, T5, F, I and O units of the Portfolio with the blended benchmark. The blended benchmark is comprised of 40.5% Canadian bonds (FTSE TMX Canada Universe Bond index), 10.0% Cash (FTSE TMX Canada 91 Day T-Bill Index), 22.5% Global bonds (JPM GBI Global Hdg C\$ Index), 8.0% Canadian equities (S&P/TSX Capped Composite Index), 19.0% Global equities (MSCI World C\$ Index).

The Series A units underperformed the blended benchmark since inception, over the past three years and over the past year.

	1 Year	3 Year	5 Year	10 Year	Performance Start Date <sup>(1)(2)</sup>
Sun Life Granite Conservative Portfolio – Series A	2.2%	4.5%	N/A	N/A	5.0%
Sun Life Granite Conservative Portfolio – T5	2.2%	4.5%	N/A	N/A	5.0%



# Sun Life Granite Conservative Portfolio

	1 Year	3 Year	5 Year	10 Year	Performance Start Date <sup>(1)(2)</sup>
Sun Life Granite Conservative Portfolio – Series F	3.1%	5.4%	N/A	N/A	5.8%
Sun Life Granite Conservative Portfolio – Series I	4.1%	6.5%	N/A	N/A	6.9%
Blended Benchmark (40.5% FTSE TMX Canada Universe Bond Index; 10.0% FTSE TMX Canada 91 Day T-Bill Index; 22.5% JPM GBI Global Hdg C\$ Index; 8.0% S&P/TSX Capped Composite Index; 19.0% MSCI World C\$ Index)	2.9%	6.6%	N/A	N/A	6.3%
FTSE TMX Canada Universe Bond	1.7%	4.6%	N/A	N/A	3.4%
FTSE TMX Canada 91 Day T-Bill	0.5%	0.7%	N/A	N/A	0.8%
JPM GBI Global Hdg C\$	3.5%	4.9%	N/A	N/A	4.1%
S&P/TSX Capped Composite Index	21.1%	7.1%	N/A	N/A	7.7%
MSCI World C\$	3.8%	12.2%	N/A	N/A	15.4%
Sun Life Granite Conservative Portfolio – Series O	3.9%	N/A	N/A	N/A	5.6%
Blended Benchmark (40.5% FTSE TMX Canada Universe Bond Index; 10.0% FTSE TMX Canada 91 Day T-Bill Index; 22.5% JPM GBI Global Hdg C\$ Index; 8.0% S&P/TSX Capped Composite Index; 19.0% MSCI World C\$ Index)	2.9%	N/A	N/A	N/A	5.8%
FTSE TMX Canada Universe Bond	1.7%	N/A	N/A	N/A	4.0%
FTSE TMX Canada 91 Day T-Bill	0.5%	N/A	N/A	N/A	0.7%
JPM GBI Global Hdg C\$	3.5%	N/A	N/A	N/A	4.5%
S&P/TSX Capped Composite Index	21.1%	N/A	N/A	N/A	5.5%
MSCI World C\$	3.8%	N/A	N/A	N/A	11.3%

<sup>(1)</sup> The performance start date for Series A, T5, F and I units was April 2, 2012.

<sup>(2)</sup> The performance start date for Series O units was April 1, 2014.

## SUMMARY OF INVESTMENT PORTFOLIO<sup>(1)</sup>

as at December 31, 2016

### Top 25 Investments

Holdings	Percentage of Net Asset Value of the Fund (%)
1 PH&N Bond Fund, Series O <sup>(2)</sup>	28.9
2 Sun Life BlackRock Canadian Universe Bond Fund, Series I <sup>(2)</sup>	12.6
3 Sun Life Granite Tactical Completion Fund, Series I <sup>(2)</sup>	11.7
4 RBC Global High Yield Bond Fund, Series O <sup>(2)</sup>	7.0
5 iShares Core S&P 500 ETF <sup>(2)</sup>	5.0
6 Templeton Global Bond Fund (Hedged), Series O <sup>(2)</sup>	4.9
7 Templeton Global Bond Fund, Series O <sup>(2)</sup>	4.5
8 Sun Life MFS International Value Fund, Series I <sup>(2)</sup>	3.9
9 Beutel Goodman Canadian Equity Fund, Class I <sup>(2)</sup>	3.3
10 Sun Life MFS U.S. Growth Fund, Series I <sup>(2)</sup>	3.1
11 Sun Life NWQ Flexible Income Fund, Series I <sup>(2)</sup>	2.6
12 Sun Life Money Market Fund, Series I <sup>(2)</sup>	2.4
13 Sun Life BlackRock Canadian Composite Equity Fund, Series I <sup>(2)</sup>	2.2
14 Sun Life Sentry Infrastructure Fund, Series I <sup>(2)</sup>	1.4
15 Sun Life MFS International Growth Fund, Series I <sup>(2)</sup>	1.4
16 Sun Life MFS Canadian Equity Growth Fund, Series I <sup>(2)</sup>	1.1
17 Sun Life Dynamic Energy Fund, Series I <sup>(2)</sup>	1.0
18 Brandes U.S. Small Cap Equity Fund, Series I <sup>(2)</sup>	1.0
19 Sun Life MFS Low Volatility International Equity Fund, Series I <sup>(2)</sup>	0.7
20 Sun Life Sentry Global Mid Cap Fund, Series I <sup>(2)</sup>	0.6
21 Invesco Global Real Estate Fund, Series I <sup>(2)</sup>	0.4
22 Sun Life Sionna Canadian Small Cap Equity Class, Series I <sup>(2)</sup>	0.2
23 Cash and Cash Equivalents <sup>(3)</sup>	0.1
	<b>100.0</b>
<b>Total Net Asset Value (000's)</b>	<b>\$ 891,105</b>

### Asset Mix

	Percentage of Net Asset Value of the Fund (%)
Fixed Income	67.5
Equity	32.4
Cash and Cash Equivalents <sup>(3)</sup>	0.1
	<b>100.0</b>

<sup>(1)</sup> All information is as at December 31, 2016. The summary of investment portfolio may change due to ongoing portfolio transactions of the Fund. You may obtain quarterly updates to these holdings free of charge by calling us at 1-877-344-1434, visiting our website at [www.sunlifeglobalinvestments.com](http://www.sunlifeglobalinvestments.com) or by sending an email to us at [info@sunlifeglobalinvestments.com](mailto:info@sunlifeglobalinvestments.com).

<sup>(2)</sup> The Fund invests in other investment funds. The prospectus of the underlying investment fund and other information can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

<sup>(3)</sup> Cash and Cash Equivalents, for the purpose of this chart, includes other assets less liabilities.

# Sun Life Granite Conservative Portfolio

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## Forward-Looking Statements

*This management report of fund performance may contain forward-looking statements about the Portfolio, including its strategy, results of operations, performance and condition. Forward-looking statements include statements that are predictive in nature, or that depend upon or refer to future events or conditions. They are based on current beliefs, expectations and projections about future events and are inherently subject to, among other things, risks, uncertainties and assumptions about the Portfolio and various economic factors. Many factors could cause the Portfolio's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements. These factors could include, among other things, general economic, political and market factors, including interest and foreign exchange rates, business competition, technological changes, changes in government regulations or in tax laws. Although the forward-looking statements contained in this report are based upon what management currently believes to be reasonable assumptions, the Manager cannot assure current or prospective investors that actual results, performance or achievements will be consistent with these forward-looking statements. The words "may", "could", "would", "should", "believe", "plan", "anticipate", "expect", "intend", "forecast", "objective", and similar expressions are intended to identify forward-looking statements.*

## ANNUAL MANAGEMENT REPORT OF FUND PERFORMANCE

### Sun Life Granite Conservative Portfolio

You can find more information about each Fund in our Annual Information Form, and each Fund's management report of fund performance and financial statements, once available. These documents are incorporated by reference into this document, which means that they legally form part of this document just as if they were printed as part of it.

For a free copy of these documents, call us toll-free at **1-877-344-1434** or ask your advisor. These documents and other information about the Funds, such as information circulars and material contracts, are also available at [www.sunlifeglobalinvestments.com](http://www.sunlifeglobalinvestments.com) or [www.sedar.com](http://www.sedar.com).

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