Sun Life Granite Managed Portfolios

MANAGEMENT COMPANY

SLGI Asset Management Inc.

PORTFOLIO MANAGERS

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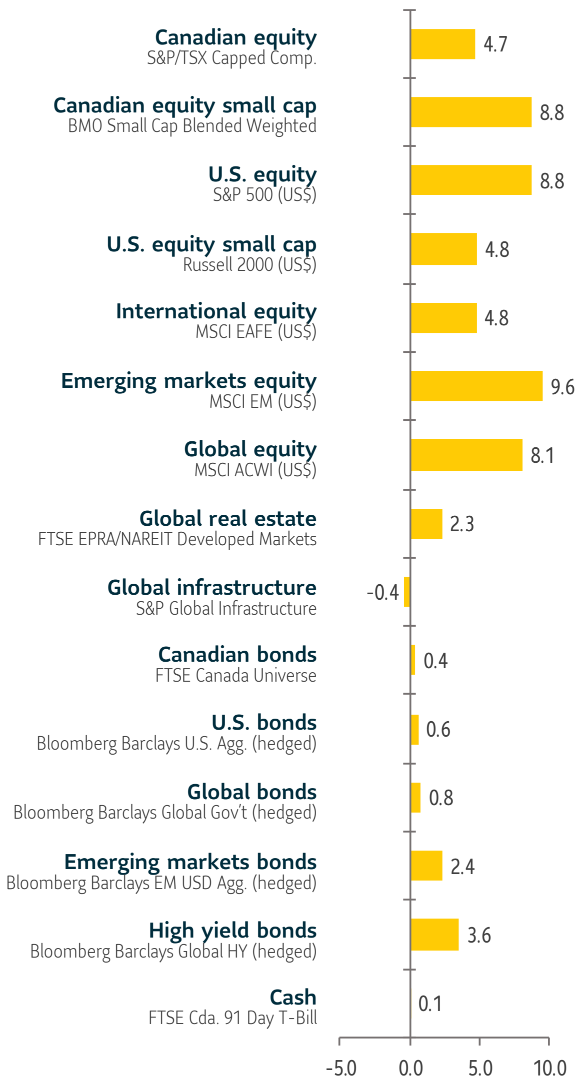
HIGHLIGHTS

- Sun Life Granite Managed Portfolio returns were positive in Q3
- Slightly reduced our overweight to U.S. equities
- Moved from neutral to slight overweight in EAFE equities
- Remained underweight Canadian equities
- Added corporate high yield bonds
- Used a number of different option strategies to capture income or reduce risk

MARKET RETURNS



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

OUTLOOK

In March, with COVID-19 forcing a shutdown of the global economy, the S&P 500 collapsed – losing 34% of its value in 19 days. Governments around the world responded, pumping out more than US$15 trillion in stimulus spending while central banks flat-lined key interest rates. Sentiment turned – optimism replaced despair and on August 18, the S&P 500 hit a record high, erasing the shortest bear market in history. Investors then paused in the final days of the quarter to consider the still troubled market backdrop: the pandemic was accelerating, the U.S. Congress failed to deliver additional stimulus and with the threat of a prolonged downturn, the outlook for corporate profits clouded. And with that, the tech-heavy Nasdaq fell 10% in just three days.

With so much economic and political uncertainty, was the Nasdaq's tumble just a short-lived pullback? Or was it the start of a bigger downturn? That remains to be seen. But since the start of the COVID-19-driven selloff, we've consistently downplayed the idea of a quick V-shaped recovery. Instead, given the depth of the economic carnage, there could be another down leg in what may be a W-shaped recovery. Perhaps that is the start of what we saw as Q3 came to a close.

Where the markets go from here though, clearly depends on the answer to a number of key questions. As the second wave of COVID-19 grows, can it be contained without shutting down the economy again? Will the U.S. deliver another round of stimulus? When could we see an effective vaccine? And, if we don't get a rapid recovery, can corporate profits keep pace with expanding equity valuations.

Given the deep economic hole carved by COVID-19, we started Q3 being slightly underweight equities. However, with the initial-wave of COVID-19 partially contained and with monetary and fiscal stimulus kicking in, we saw positive signs emerge major economies began to reopen, vaccine trials were advancing and corporate profits were holding up.

In light of these developments, we started to add some risk back into the portfolios, and by quarter-end our equity weighting was roughly neutral.

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 equities
+ Overweight U.S. equities
+ Overweight emerging market equities

– Overweight EAFE equities
– Slightly overweight U.S. dollar

SUN LIFE GRANITE BALANCED, BALANCED GROWTH & GROWTH PORTFOLIOS

+ Overweight U.S. equities
+ Overweight emerging market equities
+ Underweight real assets

– Overweight EAFE equities
– Slightly overweight U.S. dollar

SUN LIFE GRANITE INCOME & ENHANCED INCOME PORTFOLIOS

+ Overweight U.S. equities
+ Underweight real assets

– Overweight Canadian investment grade bonds
– Underweight high yield bonds

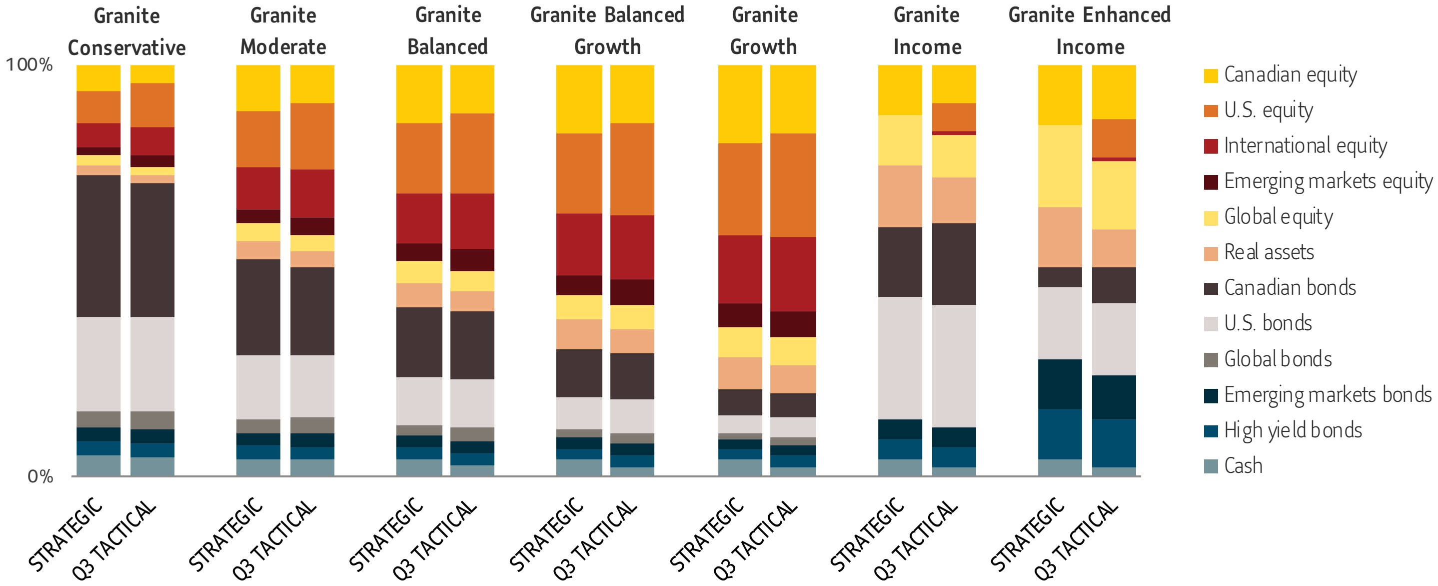
Q3 ASSET ALLOCATION (%)

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	4.5	10.6	7.2	2.6	2.2	2.0	32.6	22.8	4.2	3.7	3.4	4.4
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	9.4	16.2	11.4	4.2	4.0	3.9	21.5	15.3	3.5	3.4	3.1	4.1
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	11.8	19.5	13.4	5.3	5.0	5.0	16.5	11.7	3.1	3.0	3.0	2.6
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	22.5	15.6	6.0	5.9	5.9	11.2	8.3	2.6	2.8	2.8	2.3
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	25.2	17.9	6.6	6.8	6.9	5.8	4.7	2.2	2.5	2.5	2.4
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	9.3	7.0	1.0	0.0	10.3	11.0	19.8	29.7	0.0	5.0	4.5	2.4
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	13.5	8.9	1.0	0.0	16.5	9.5	8.5	17.7	0.0	10.6	11.5	2.3

Data as at September 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.

Q3 TACTICAL ALLOCATIONS



KEY TACTICAL CHANGES

- In Q3, with markets continuing to rally, we slightly reduced our position, but remained overweight U.S. equities.
- With stimulus kicking in and the European economy improving, moved from neutral to overweight on EAFE equites.
- Added slightly to Canadian exposure but remained underweight due in part to economic concerns, including low oil prices.
- Added high yield corporate bonds, with the U.S. Federal Reserve back-stopping the asset class.
- For additional income, sold options across various markets in Q3.

By quarter end our equity weighting had moved from slightly underweight to roughly neutral.

Within our equity mix, we continued to overweight U.S. and emerging market equities. In addition, we moved from neutral to an overweight position in EAFE equities. However, we maintained our underweight position in Canadian equities.

During the quarter we were positive on U.S. growth stocks, including large tech companies that led the rally. We took profits, and even though we did get a pullback at quarter-end, we anticipate longer-term upside in the group.

If the U.S. Congress approves more stimulus spending, it could provide a boost to the broader market. To that end, we have a bias toward quality, remaining overweight large U.S. companies. But we also took on a more opportunistic tilt, adding U.S. value names that lagged growth in the run-up.

We sold options across various markets in Q3. For one, given the selloff in technology names, we sold deep, out-of-the-money put options on the Nasdaq. We also used short call and short put options on gold and technology stocks.

Canada continued to be our largest underweight. Household spending, which accounts for 59% of Canada's GDP, has been slowed by high consumer debt levels. We also believe home prices could retreat in a prolonged slowdown.

We remained overweight emerging markets. But we are concerned that some major emerging market countries may have difficulty reopening their economies. However, China is well past the virus. It's manufacturing sector has rebounded and exports have picked up.

In terms of EAFE equities, the European Union's US$888-billion recovery fund, should continue to help equities and the economy. However, negotiations surrounding the U.K.'s exit from the EU have stalled. And a second wave of COVID-19 has broken out in a number major European countries.

With the U.S. Federal Reserve backstopping corporate high yield bonds, we added to the category in Q3. We were close to neutral across our bond allocations at quarter-end.

PERFORMANCE (%)

		SINCE INCEPTION*	7 YEAR	5 YEAR	3 YEAR	1 YEAR	Q3
Sun Life Granite Conservative Portfolio							
	Series A	4.2	4.2	3.4	3.3	2.3	2.2
	Series F	5.1	5.1	4.3	4.2	3.2	2.5
Sun Life Granite Moderate Portfolio							
	Series A	5.7	5.4	4.3	3.8	2.6	3.2
	Series F	6.9	6.6	5.5	5.0	3.8	3.5
Sun Life Granite Balanced Portfolio							
	Series A	6.5	6.2	5.0	4.4	3.4	3.8
	Series F	7.7	7.4	6.2	5.7	4.6	4.1
Sun Life Granite Balanced Growth Portfolio							
	Series A	7.2	6.8	5.4	4.8	3.5	4.2
	Series F	8.5	8.0	6.6	6.0	4.7	4.5
Sun Life Granite Growth Portfolio							
	Series A	7.9	7.4	5.8	5.1	3.6	4.7
	Series F	9.1	8.6	7.0	6.3	4.8	5.0
Sun Life Granite Income Portfolio							
	Series A	3.9	4.3	3.3	2.5	-0.5	2.2
	Series F	4.8	5.3	4.2	3.4	0.4	2.4
Sun Life Granite Enhanced Income Portfolio							
	Series A	3.6	3.8	2.8	1.2	-2.8	2.5
	Series F	4.8	5.0	4.0	2.4	-1.7	2.8

Returns for perioids longer than one year are annualized. Data as at September 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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