The Sun Life Granite Aggressive Fund fell 6.4% in the fourth quarter. Reduced exposure to most equities, with the exception of emerging markets. Continued to overweight Japan, relative to other international equities. Hedged volatility to potentially reduce risk. Maintained underweight in bonds. Increased cash levels in the portfolios.

Investors often find a year-end rally in their Christmas stocking. As we anticipated, this year there wasn't one, with key indexes plummets worldwide as Q4 came to a close. In the end, the S&P 500 and the Dow Jones Industrial Average were down 4.4% and 3.9% respectively for the year—their biggest annual losses since 2008. Most of the losses came during an extremely volatile December, with the two key indexes posting their worst monthly performance since 1931.

Is the worst of the market rout now behind us? Given concerns over rising interest rates and the ongoing fallout from the U.S./China trade war, we expect volatility to continue. However, given the recent sell-off, we will look for opportunities to add to our equity weightings when appropriate.

The losses in U.S. markets were in sharp contrast to the country’s prevailing economic fundamentals. In fact, despite Wall Street’s woes, the Main Street economy continued to perform well. Consumer confidence is high, job growth remains strong and wages are rising.

Risks to the Canadian economy appeared to have been reduced with the signing of the new USMCA trade pact in September. But economic uncertainty returned with the collapse of oil prices in Q4, putting downward pressure on the Canadian market.

With the exception of Japan where economic fundamentals are improving, we are negative on international equities. However, we are overweight emerging market equities, which may show relative strength in 2019, after struggling in wake of the U.S./China trade war and as the U.S. dollar climbed in value.
PORTFOLIO REVIEW

Sun Life Granite Aggressive Fund fell 6.4% in the fourth quarter.

Performance was hindered when volatility increased and major equity markets fell sharply worldwide.

Our overweight position in U.S. and international equities weighed on the portfolio, with the S&P 500 down 4.4% and the MSCI EAFE Index correcting by 10.5%.

The decision to underweight bonds also affected performance when yields fell in the quarter, causing bonds prices to rise.

However, we reduced our equity exposure to most markets prior to December, with the exception of a moderate overweight position in emerging market equities.

This strategy proved to be positive for the portfolios, with emerging market stocks performing well toward the end of the year.

CONTRIBUTORS

- Overweight emerging market equities
- Overweight cash

DETRACTORS

- Overweight U.S. equities
- Underweight bonds
- Underweight infrastructure and real estate

Q4 ASSET ALLOCATION

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.

### ALLOCATION DETAILS AS OF DECEMBER 31, 2018

<table>
<thead>
<tr>
<th>ASSET CLASS</th>
<th>STRATEGIC %</th>
<th>TACTICAL %</th>
<th>TACTICAL OVER/UNDER</th>
<th>TACTICAL CHANGE FROM PRIOR QUARTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canadian equity</td>
<td>24.0</td>
<td>24.1</td>
<td>0.1</td>
<td>-0.2</td>
</tr>
<tr>
<td>U.S. equity</td>
<td>24.0</td>
<td>25.8</td>
<td>1.8</td>
<td>0.0</td>
</tr>
<tr>
<td>International equity</td>
<td>16.1</td>
<td>16.2</td>
<td>0.1</td>
<td>-1.4</td>
</tr>
<tr>
<td>Emerging markets equity</td>
<td>5.5</td>
<td>7.5</td>
<td>2.0</td>
<td>1.1</td>
</tr>
<tr>
<td>Global equity</td>
<td>2.4</td>
<td>4.4</td>
<td>2.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Global real estate</td>
<td>4.0</td>
<td>1.4</td>
<td>-2.6</td>
<td>-1.2</td>
</tr>
<tr>
<td>Global infrastructure</td>
<td>4.0</td>
<td>2.6</td>
<td>-1.4</td>
<td>0.0</td>
</tr>
<tr>
<td>Canadian bonds</td>
<td>7.5</td>
<td>6.7</td>
<td>-0.8</td>
<td>-1.0</td>
</tr>
<tr>
<td>U.S. bonds</td>
<td>3.5</td>
<td>1.4</td>
<td>-2.1</td>
<td>-1.8</td>
</tr>
<tr>
<td>Global bonds</td>
<td>1.5</td>
<td>1.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Emerging markets bonds</td>
<td>2.5</td>
<td>1.2</td>
<td>-1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>High yield bonds</td>
<td>2.5</td>
<td>1.2</td>
<td>-1.3</td>
<td>0.0</td>
</tr>
<tr>
<td>Cash</td>
<td>2.5</td>
<td>6.0</td>
<td>3.5</td>
<td>4.6</td>
</tr>
<tr>
<td><strong>Totals:</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>2.0</strong></td>
<td><strong>4.6</strong></td>
</tr>
</tbody>
</table>

(May be rounded)
KEY TACTICAL CHANGES

- Initiated hedges on volatility to potentially reduce risk in the portfolios
- Reduced exposure to most equities, with the exception of emerging markets
- Given lower relative valuations, increased exposure to emerging markets
- Maintained overweight to Japan on improving economic fundamentals and investment climate
- Underweighted bonds and adopted a duration-neutral strategy
- For defensive purposes, raised cash to potentially reduce risk

Markets turned volatile in Q4 as worried investors headed to the sidelines in December’s market rout. We believed volatility would increase, and took a number of steps to potentially lower risk in the portfolios.

This protective strategy involved initiating hedges in the latter months of the year on volatility, technology stocks and emerging market equities. We also reduced equity exposure in specific areas.

Despite the selloff in U.S. equities, we believe the country’s economic fundamentals remain solid. Still, concern over the pace of interest rate increases and the U.S./China trade war, helped push the U.S. market into a tailspin. As a result, we slightly reduced our U.S. holdings, but we plan to increase our exposure as opportunities surface.

The oil price collapse added to market pessimism in Canada. We had moved from underweight to neutral on Canada earlier in the year. We remained neutral at year-end. And given the lower valuations on Canadian equities, it may be a good place to be if markets correct further.

A number of issues continue to overhang the European economy. These include slower economic growth, Italy’s fragile banking system, and a deteriorating political situation surrounding Britain’s exit from the European Union. Consequently, we moved from overweight to neutral on international equities.

The one exception in this category is Japan, where both the investment climate and domestic economy appear to be improving.

We did, however, remain overweight in emerging markets. By our measure, equity valuations are now attractive and longer-term prospects for emerging markets remain potentially better than developed ones. And they could also benefit if the U.S. dollar weakens.

In terms of fixed income, we underweighted bonds. While yields fell in the quarter, we expect them to climb in 2019 as interest rates continue to rise, albeit at a slower pace than previously predicted.

Given the clouded interest rate outlook, we implemented a duration neutral strategy on a small part of the bond portfolio. This approach, potentially allows us to take advantage of increased volatility in the bond market. We may continue to use it in uncertain fixed income markets in the future.

FINANCIAL CONDITIONS SUGGEST WE’RE LATE IN THE ECONOMIC CYCLE

To take the pulse of the economy, Financial Conditions Indexes summarize different indicators, including short- and long-term bond yields, credit spreads, currency values and equity prices.

As shown here, following the 2008 financial crisis, looser financial conditions like rock-bottom interest rates gave people and corporations greater access to capital. This led to increased spending, which kept the economy well-oiled in what has been one of the longest periods of uninterrupted economic growth in history.

However, we appeared to reach an inflection point at the beginning of 2018 with financial conditions beginning to tighten again as interest rates climbed. This tightening may suggest that we are now in the final innings of a very long economic cycle.

TACTICAL ALLOCATIONS - HISTORY

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

FUND RETURNS %

<table>
<thead>
<tr>
<th>Fund</th>
<th>Q4</th>
<th>1 YR</th>
<th>2 YR</th>
<th>3 YR</th>
<th>5 YR</th>
<th>SINCE INCEPTION¹</th>
<th>INCEPTION DATE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sun Life Granite Aggressive Fund</td>
<td>-6.38</td>
<td>-1.50</td>
<td>4.98</td>
<td>5.57</td>
<td>8.15</td>
<td>11.15</td>
<td>January 12, 2012</td>
</tr>
<tr>
<td>Sun Life Granite Aggressive Benchmark²</td>
<td>-6.14</td>
<td>-2.83</td>
<td>3.94</td>
<td>5.10</td>
<td>7.38</td>
<td>9.62</td>
<td></td>
</tr>
</tbody>
</table>

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Data as at December 31, 2018. Sun Life Granite Management Portfolios invest in mutual funds and/or exchange traded funds (ETFs). Investors should read the fund’s offering documents and consult with their financial advisor prior to investing. The indicated rates of return are the historical annual compounded returns for Series A units of the funds including changes in unit value and reinvestment of all distributions but do not reflect the deduction of investment management fees or take into account any administrative charges or taxes payable that would have reduced returns. Mutual funds are not guaranteed, their values change frequently and past performance may not be repeated.

¹ Since inception return for the benchmark is as of the mutual fund’s inception date.
² 7.5% FTSE Canada Universe Bond Index, 1.5% JPM Global Gov’t CS hedged, 2.5% Barclay EM USD Aggregate CS hedged, 2.5% Barclay Global High Yield CS hedged, 3.5% Barclay US Aggregate CS hedged, 2.4% BMO NB Small Cap Index, 21.6% S&P/TSX Capped Composite, 21.6% S&P 500 (CS), 2.4% Russell 2000 Index (CS), 16.1% MSCI EAFE (CS), 4% S&P Global Infrastructure (CS), 2.4% MSCI ACW Mid Cap Index (CS), 4.13% MSCI Emerging Mkts (CS), 1.38% MSCI India Index (CS), 4% FTSE EPRA/NAREIT (CS), 2.5% FTSE Canada 91 Day TBill Index

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