Sun Life Granite Managed Portfolios

FUND REVIEW Q1 2019 | Opinions as of March 31, 2019

HIGHLIGHTS

- Sun Life Granite Managed Portfolio returns were positive in the quarter
- Moved to small overweight positions in U.S. and emerging market securities
- Added defensive options strategies, including on the S&P 500
- Reduced exposure to high yield bonds, added Canadian investment grade bonds
- Increased cash weighting

MANAGEMENT COMPANY

Sun Life Global Investments (Canada) Inc.

PORTFOLIO MANAGERS

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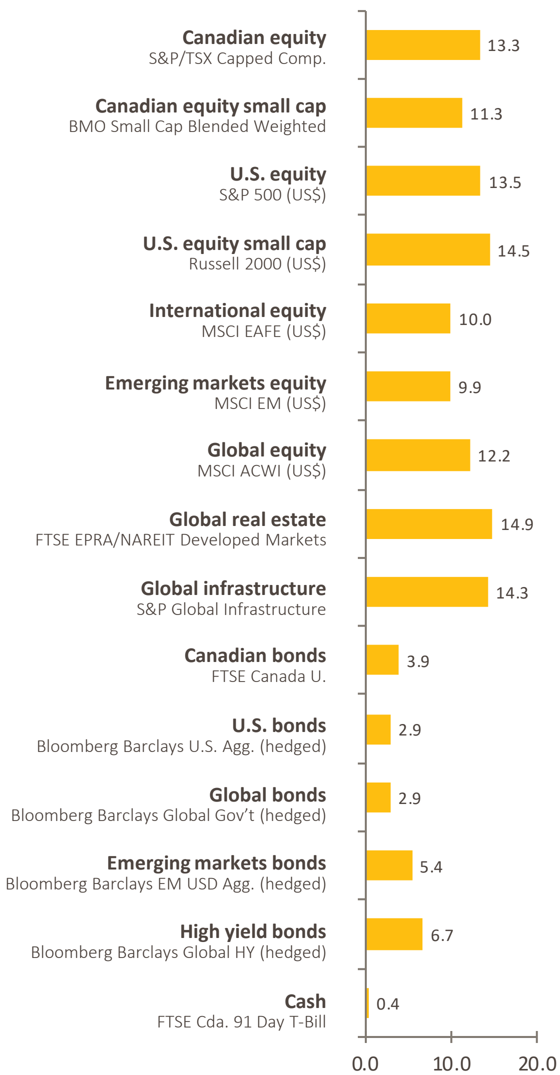
MARKET RETURNS



Source: Bloomberg. Data as of March 31, 2019.
Total return in C$ or as indicated.

OUTLOOK

Equity markets tumbled in the final weeks of 2018 as investors fretted over slowing global trade, rising interest rates and the U.S./China trade war. But in January, the U.S. Federal Reserve switched from a hawkish to a dovish stance on interest rates, while the rhetoric around trade improved. It was enough to trigger a wave of investor optimism with the S&P 500 up 13.6% in the first quarter – its best start to a year since 1998.

The U.S. economy continues to perform well, with the S&P 500 recovering all of last year's losses. However, after the strong start in Q1 we expect limited upside from here with increased volatility in the months ahead. For now, with the exception of the U.S. and emerging markets where we are slightly overweight, we are neutral on equities in general.

The market selloff at the end of 2018 and weaker global growth may have influenced the U.S Federal Reserve's decision to take a more dovish stance on interest rates. Certainly, most of the fuel behind the equity rally in Q1 stemmed from the possibility that the Fed may not be raising rates for a considerable length of time. Moreover, the bond market appears to be pricing in an interest rate cut, with U.S. 10-year Treasury yields dropping to 2.4% at quarter end.

Even without a rate cut, at its last meeting on March 29 the Fed dot plot projection suggested that its benchmark rate will remain near 2.4% at least to the end 2019. And it slashed its forecast from two hikes this year to zero.

Although less clear, the Bank of Canada also appears to have changed its outlook for interest rates. In late 2018, the bank indicated that there was room for rates to run higher. The economy appears to have slowed since then, and Bank of Canada Governor Stephen Poloz recently stated that he now sees "increased uncertainty" on the timing of future increases.

Sun Life GLOBAL Investments

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 Canadian and emerging market equities
+ Favoured Canadian investment grade bonds over U.S. bonds

– Underweight high yield bonds
– Underweight infrastructure and real estate
– Overweight cash

SUN LIFE GRANITE BALANCED, BALANCED GROWTH & GROWTH PORTFOLIOS

+ Overweight U.S. equities
+ Favoured Canadian investment grade bonds over U.S. bonds

– Underweight high yield bonds
– Underweight infrastructure and real estate
– Overweight cash

SUN LIFE GRANITE INCOME & ENHANCED INCOME PORTFOLIOS

+ Overweight equities in general
+ Favoured Canadian investment grade bonds over U.S. bonds

– Underweight infrastructure and real estate
– Underweight high yield bonds
– Overweight cash

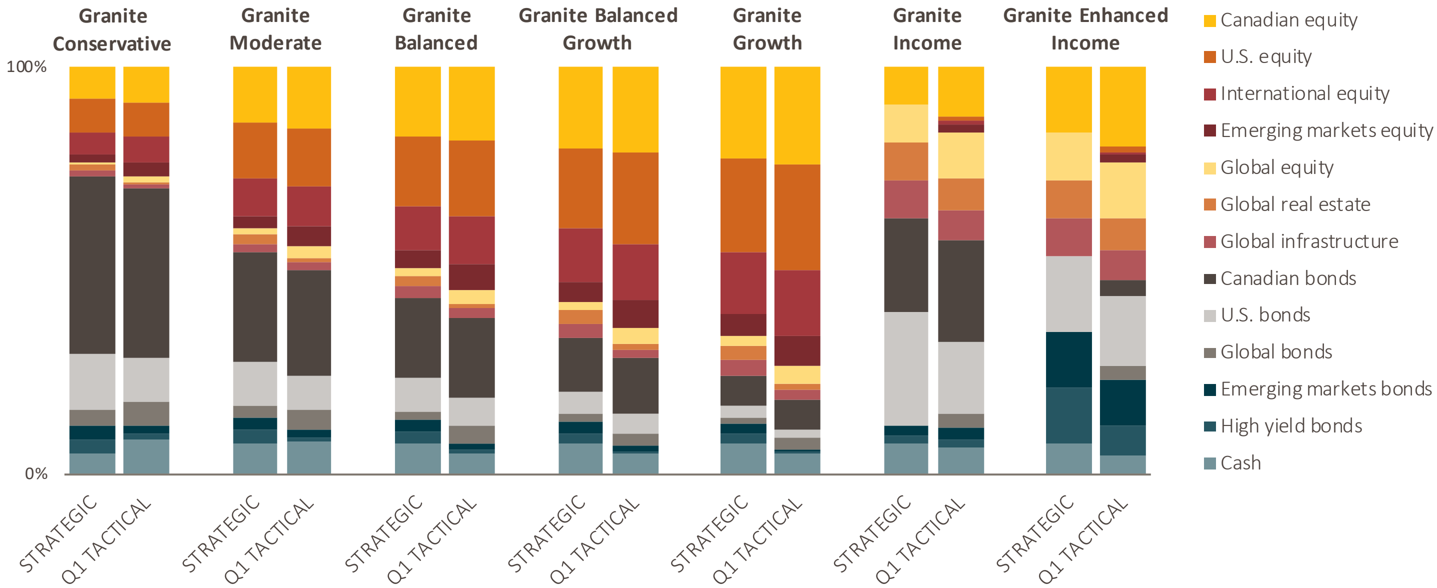
Q1 ASSET ALLOCATION (%)

Portfolio		Canadian equity	U.S. equity	International equity	Emerging markets equity	Global equity	Global real estate	Global infrastructure	Canadian bonds	U.S. bonds	Global bonds	Emerging markets bonds	High yield bonds	Cash
Granite Conservative	STRATEGIC	8.0	8.0	5.6	1.8	0.8	1.4	1.4	43.5	13.7	3.8	3.5	3.5	5.0
	TACTICAL	9.1	8.0	6.3	3.5	1.4	0.7	1.2	41.6	10.6	5.7	2.2	1.5	8.3
Granite Moderate	STRATEGIC	14.2	14.2	9.2	3.4	1.4	2.3	2.3	27.6	11.0	3.0	3.2	3.2	5.0
	TACTICAL	15.1	14.2	9.9	5.1	2.7	1.2	1.7	26.1	8.5	4.8	1.8	1.2	7.7
Granite Balanced	STRATEGIC	18.0	18.0	11.7	4.5	1.8	3.0	3.0	20.5	8.5	2.5	3.0	3.0	2.5
	TACTICAL	18.1	18.8	11.5	6.5	3.4	1.2	2.1	19.9	6.5	4.5	1.5	1.1	4.9
Granite Balanced Growth	STRATEGIC	21.0	21.0	13.9	5.0	2.1	3.5	3.5	13.9	6.0	2.0	2.8	2.8	2.5
	TACTICAL	21.1	22.3	13.9	7.0	4.0	1.3	2.2	13.7	4.6	3.0	1.3	0.8	4.8
Granite Growth	STRATEGIC	24.0	24.0	16.1	5.5	2.4	4.0	4.0	7.5	3.5	1.5	2.5	2.5	2.5
	TACTICAL	24.1	25.8	16.2	7.5	4.4	1.4	2.6	7.2	2.2	2.5	0.8	0.6	4.7
Granite Income	STRATEGIC	10.0	0.0	0.0	0.0	10.0	10.0	10.0	25.0	30.0	0.0	2.5	2.5	0.0
	TACTICAL	12.1	1.3	0.8	2.0	11.5	7.5	7.5	25.1	17.4	3.4	2.9	1.9	6.6
Granite Enhanced Income	STRATEGIC	17.5	0.0	0.0	0.0	12.5	10.0	10.0	0.0	20.0	0.0	15.0	15.0	0.0
	TACTICAL	19.6	1.3	0.8	2.0	13.6	7.7	7.7	3.5	17.3	3.3	11.4	7.6	4.2

Data as at March 31, 2019.

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.

Q1 TACTICAL ALLOCATIONS



KEY TACTICAL CHANGES

- With the market run-up amid economic uncertainty, initiated defensive hedge on the S&P 500
- To help de-risk the bond portfolio, decreased exposure to global high yield bonds and added Canadian investment grade bonds
- Increased cash, preferring cash over bonds after yields compressed with the risk of yields now moving higher
- With a number of economic and political risks in the market, we moved to a neutral position over the quarter on equities in general, with the exception of slight overweight position in U.S. and emerging market equities

The S&P 500 climbed 13.6% in the first quarter, buoyed by the U.S. Federal Reserve's shift from an aggressive stance on interest rates to a decidedly dovish tone.

Overall, the U.S. economy continues to perform well. However, with the run-up in equity markets worldwide and a possible slowdown in economic growth, we see increasing risks in the market. And with the exception of slight overweights in U.S. and emerging market equities, we moved to a neutral position on equities in general over the quarter.

To help mitigate risk, we've initiated defensive option hedges on the S&P 500. As well, we reduced exposure to global high yield bonds, which could deteriorate if the market corrects. At the same time, we increased our weighting in Canadian investment grade bonds.

Outside of the U.S., many economies are struggling, with growth in the European Union expected to slow to 1% over the next 12 months. As well, Britain's destabilizing struggle to leave the EU has led to a slowdown in investment. Hence, we are underweight European stocks, and neutral on EAFE equities overall.

China's economy, in part weighed down by the tariff battle with the U.S., continued to slow. However, China is taking steps to stimulate its economy. Spending on infrastructure has picked up and China's central bank has lowered reserve requirements to stimulate lending by commercial banks.

Despite the slowdown, we believe emerging markets haven't recovered as much as developed markets, giving them greater potential to move higher. As well, with the Fed on hold, it may slow the upward trend in interest rates and the value of the U.S. dollar. As a result, we are slightly overweight emerging markets.

At home, we are neutral on Canadian equities. On one side, the country has had strong job creation. On the other, we've had markedly slower economic growth as debt-saddled consumers continue to reduce spending.

The economy may be helped by the surge in oil prices late in the quarter. However, until there is increased clarity on the health of the economy, we expect the Bank of Canada to moderate its view on interest rate increases in the months ahead.

PERFORMANCE (%)

		Q1	1 YEAR	3 YEAR	5 YEAR	7 YEAR	SINCE INCEPTION*
Sun Life Granite Conservative Portfolio							
	Series A	5.0	3.3	3.4	3.6	4.4	4.4
	Series F	5.2	4.3	4.3	4.5	5.3	5.3
Sun Life Granite Moderate Portfolio							
	Series A	6.4	3.9	4.7	4.7	6.0	6.2
	Series F	6.7	5.2	5.9	5.9	7.2	7.4
Sun Life Granite Balanced Portfolio							
	Series A	7.3	4.5	5.6	5.4	6.8	7.1
	Series F	7.6	5.7	6.8	6.6	8.0	8.2
Sun Life Granite Balanced Growth Portfolio							
	Series A	8.0	4.9	6.2	6.0	7.6	7.9
	Series F	8.3	6.1	7.4	7.2	8.8	9.1
Sun Life Granite Growth Portfolio							
	Series A	8.8	5.3	6.9	6.6	8.3	8.7
	Series F	9.1	6.6	8.1	7.8	9.5	9.9
Sun Life Granite Income Portfolio							
	Series A	6.2	3.8	3.6	3.6	-	4.3
	Series F	6.4	4.8	4.5	4.5	-	5.2
Sun Life Granite Enhanced Income Portfolio							
	Series A	7.0	3.2	3.9	3.3	-	4.4
	Series F	7.3	4.4	5.0	4.5	-	5.6

Returns for periods longer than one year are annualized. Data as of March 31, 2019.

*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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