Sun Life Granite Income Portfolio SERIES A

FUND REVIEW Q3 2018 | Opinions as of October 1, 2018

CATEGORY[1]
Tactical Balanced

MANAGEMENT COMPANY
Sun Life Global Investments (Canada) Inc.

INCEPTION DATE
January 17, 2013

PORTFOLIO MANAGERS
Sadiq S. Adatia, FSA, FCIA, CFA
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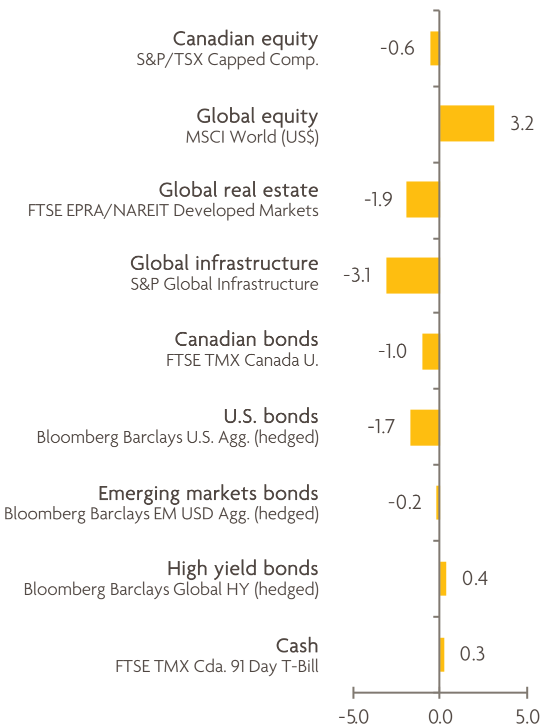
HIGHLIGHTS

- Sun Life Granite Income Portfolio was up 0.4% in Q3
- Increased exposure to U.S. bonds; reduced exposure to Canadian bonds
- Maintained overweight to U.S. equities
- Maintained defensive option strategy on U.S. tech stocks

[1] Mutual fund categories are maintained by the Canadian Investment Funds Standards Committee (CIFSC).

MARKET RETURNS



Source: Bloomberg. Data as of September 30, 2018.
Total return in C$ or as indicated.

OUTLOOK

Canada, the United States and Mexico signed on to a new trade deal to replace NAFTA. But just days before, U.S. President Donald Trump ratcheted up pressure on China, placing a 10% tariff on a further $200-billion worth of Chinese goods entering the U.S. China immediately countered with a 5 to 10% tariff on $60 billion in U.S. imports. This is a significant escalation. And it won't be easily resolved, with trade negotiations between the two countries breaking off at one point.

The new NAFTA pact called the United States-Mexico-Canada Agreement (USMCA) appears to be a good one for our country. Most of the previous NAFTA agreement remains as it was, with only minor changes. In addition, it keeps important elements like the dispute mechanism firmly in place.

We still feel confident about the U.S. given the strong economic fundamentals. But with mid-term elections around the corner and the trade dispute with China escalating, we have slightly reduced our weighting after a strong run.

We are growing more confident on Europe. And we have rotated some of our money out of the U.S. into this market. In Canada, many economic risks have been priced into the market, which has been under pressure for the last few years. However, with NAFTA resolved there could be a move higher in the markets.

The Bank of Canada is expected to raise rates again in October, and then wait to assess economic data. It will also now have to consider the positive impact of the new trade deal in its economic outlook.

PORTFOLIO REVIEW

Sun Life Granite Income Portfolio was up 0.4% in Q3.

The portfolio benefited from the positive performance of U.S. equities – the strongest performing market, with the S&P 500 reaching a new record high.

As well, defensive options strategies on U.S. tech stocks cushioned the temporary downward move in the market.

Throughout much of the quarter, the portfolio's underweight exposure to bonds helped returns when yields climbed causing bond prices to fall.

However, political uncertainty in Europe suppressed valuations. As a result, our overweight exposure to international equities dampened returns.

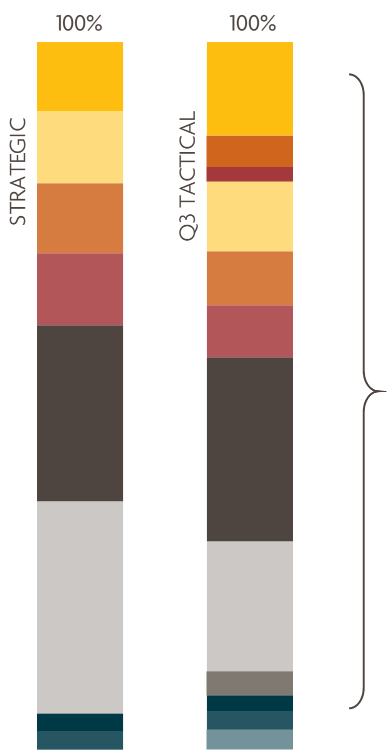
CONTRIBUTORS

- Overweight U.S. equities
- Underweight real estate
- Underweight infrastructure
- Underweight bonds in general

DETRACTORS

- Overweight international equities
- Overweight Canadian equities

Q3 ASSET ALLOCATION



ALLOCATION DETAILS AS OF SEPTEMBER 30, 2018

ASSET CLASS	STRATEGIC %	TACTICAL %	TACTICAL OVER/UNDER	TACTICAL CHANGE FROM PRIOR QUARTER
Canadian equity	10.0	13.2	3.2	0.7
U.S. equity	0.0	4.6	4.6	0.0
International equity	0.0	1.9	1.9	0.0
Emerging markets equity	0.0	0.0	0.0	0.0
Global equity	10.0	10.0	0.0	0.0
Global real estate	10.0	7.5	-2.5	0.0
Global infrastructure	10.0	7.5	-2.5	0.0
Canadian bonds	25.0	26.0	1.0	-3.8
U.S. bonds	30.0	18.3	-11.7	1.8
Global bonds	0.0	3.4	3.4	0.0
Emerging markets bonds	2.5	2.4	-0.1	0.0
High yield bonds	2.5	2.4	-0.1	0.0
Cash	0.0	2.8	2.8	1.3
Totals: (May be rounded)	**100**	**100**	**4.7** Equity	

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.

KEY TACTICAL CHANGES

- Continued to use defensive option strategies on U.S. tech stocks
- Reduced exposure to Canadian bonds
- Increased exposure to U.S. bonds with yields on Canadian bonds potentially rising at a faster rate
- Increased weighting in Canadian equities on improving economy
- Maintained overweight to U.S equities on strong economic fundamentals

The third quarter ended the way it began, with the S&P 500 steadily rising toward a record high. However, with the S&P 500 on a 10-year bull run there may a correction ahead and we are growing cautious.

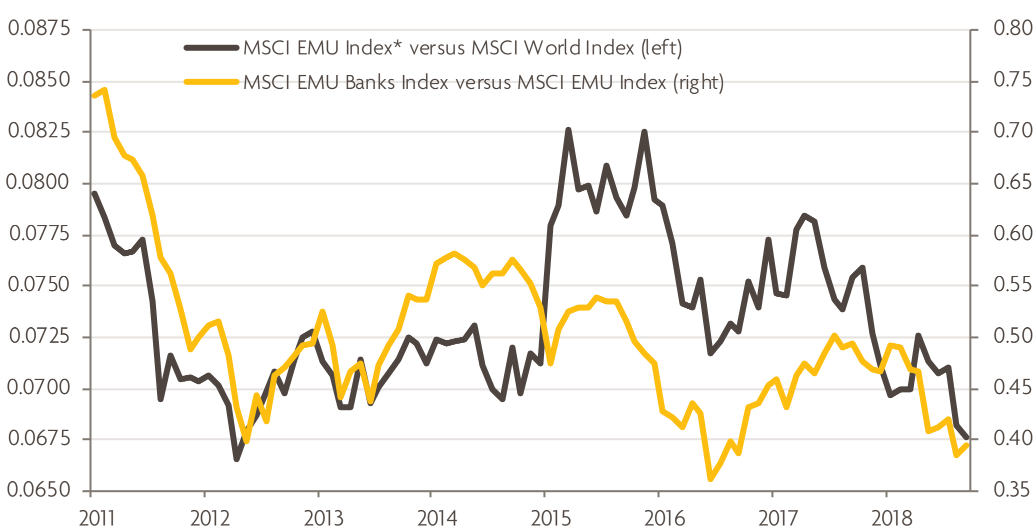
If there is a pull back, we feel it may be led by large technology stocks, such as Netflix and Apple, which we believe are frothy. They could lead the market lower if people decide to book profits. And to potentially reduce risk we adopted a defensive options strategy focused on the technology sector.

As well, we believe the European economy is solid, but political uncertainty has kept valuations suppressed. However, as those risks diminish, valuations may now catch up to the U.S. and we are slightly overweight.

With the prospect of improving growth, we slightly increased our weighting in Canadian equties. We feel that many of the issues overhanging Canada's economy, including an inflated housing market and high consumer debt loads, have been baked into the market. Moreover, with a revamped NAFTA in place, the economy could benefit if foreign and domestic capital spending picks up on more economic certainty.

In terms of fixed income, the yield on Canadian 10-year bonds ended the quarter at 2.42%, while yields on U.S. 10-year Treasuries reached 3.05%, up 20 bps. However, we believe the Bank of Canada has more room to raise interest rates, with yields possibly running higher in Canada.

FRAGILE BANKS SLOW THE EUROPEAN ECONOMY

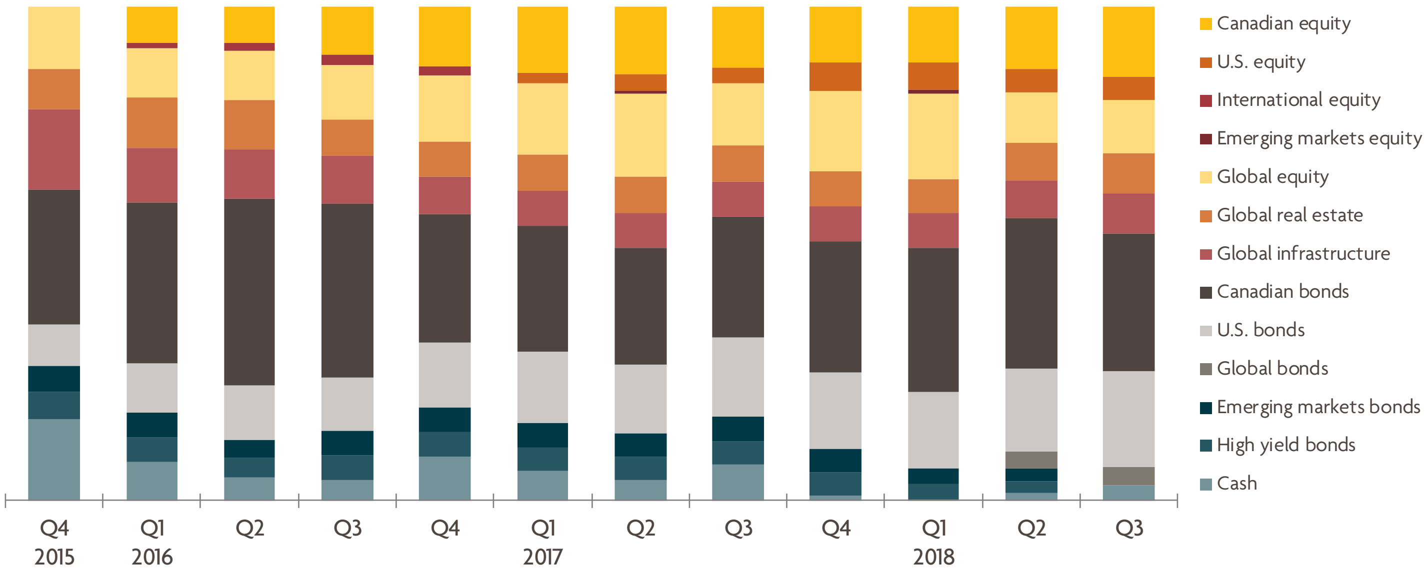


European banks have struggled to recover from the continent's multi-year debt crisis. But many of the sector's gains over the first half of the year have been erased by political turmoil in Italy where the banking sector has been near collapse. As this chart illustrates, for European equities to outperform their global counterparts, we believe the EU banking system will have to fully recover and lead the market higher.

*In 2017 the MSCI EMU (European Economic and Monetary Union) Index represented approximately 85% of the total market capitalization of the Eurozone.

Source: Bloomberg.

TACTICAL ALLOCATIONS - HISTORY



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

PORTFOLIO RETURNS % SERIES A

Q3	1 YEAR	3 YEAR	5 YEAR	SINCE INCEPTION	INCEPTION DATE
0.4	1.1	3.3	4.8	4.2	January 17, 2013

Returns for periods longer than one year are annualized. Data as of September 30, 2018.

Sun Life Granite Managed Income Portfolios invest in mutual funds and/or exchange traded funds (ETFs). 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.

The funds intend to make monthly distributions at a fixed rate. An investor's actual annual distribution rate is dependent on the net asset value of the units at the time they are acquired, and on the rate of distribution at such time. Distributions should not be confused with "yield" or "income", and are not intended to reflect a fund's investment performance or rate of return. Distributions may be comprised of income, capital gains or return of capital. The distribution rate on units held by an investor may be greater than the return on the fund's investments. If the cash distributions paid to an investor are greater than the net increase in the value of the investment, the distribution will erode the value of the original investment. Distributions are automatically reinvested in additional units of the applicable fund unless the investor instructs us to distribute cash. If necessary, a fund will make an additional distribution of income and capital gains in December of each year. The funds may make additional distributions of income, capital gains or return of capital at any other time as we consider appropriate. A distribution of capital is not immediately taxable to an investor but will reduce the adjusted cost basis of the investor's units. There can be no assurance that a fund will make any distributions in any particular month, and we reserve the right to adjust the amount of monthly distribution if we consider it appropriate, without notice.

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