Sun Life Granite Managed Portfolios

MANAGEMENT COMPANY
SLGI Asset Management Inc.

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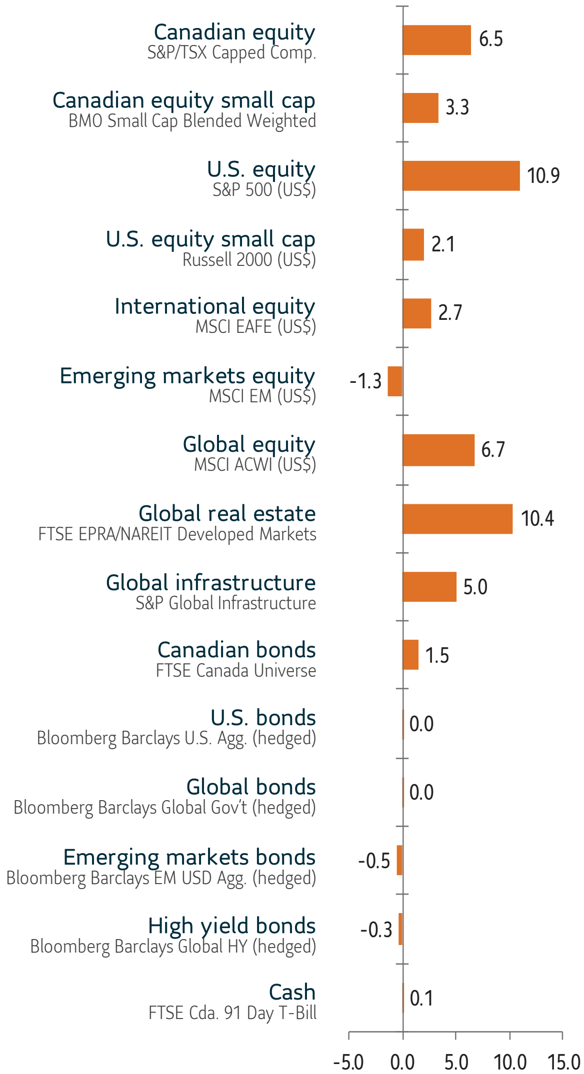
HIGHLIGHTS

- Sun Life Granite Managed Portfolio returns were positive in Q4
- Maintained neutral exposure to equites
- Continued to underweight EAFE equities with exposure to Europe
- Maintained neutral exposure to U.S. equities
- Remained underweight duration-sensitive bonds
- Overweight high yield corporate bonds, with an allocation to intermediate-term corporates.

MARKET RETURNS



Source: Bloomberg. Data as of December 31, 2021.
Total return in C$ or as indicated.

OUTLOOK

To rescue the economy from COVID-19, in March 2020 the U.S. Federal Reserve unleashed a flood of liquidity by slashing interest rates to effectively zero. The market rallied to record highs. But the question of when the Fed would begin turning off the tap has hung over the market for months. In mid-December, investors finally got part of the answer when the Fed set the stage for rate increases by announcing that it would end its bond-buying program. Then, when the minutes of that meeting were released on January 4, the Fed confirmed it would tighten, possibly in three, quarter-point hikes this year. In response, the yield on U.S. ten-year Treasuries immediately spiked, triggering a selloff in the bond and equity markets, with high-multiple tech companies hit the hardest.

The Fed also appeared more aggressive when it indicated that after it ends its bond-buying program, it would begin to reduce the size of its balance sheet. It has grown from about US$4.5 trillion to over US$8 trillion through bond purchases during the pandemic. And reducing it could drain even more liquidity from the market.

With the S&P 500 more than doubling off its pandemic low, it remains to be seen how equity markets will adapt to this changing rate environment. So far, markets have been resilient. Indeed, despite the emergence and global spread of the Omicron variant of COVID-19, the S&P 500 was up 27% in 2021 – racking up double-digit returns for the third year in a row. Both the S&P 500 and the Dow also hit new highs on January 3, just prior to the release of the Fed minutes.

We expect increased market volatility as rates begin to rise. However, even if the Fed rate was at 1% by the end of 2022, that would still be quite low by historic standards. As well, for now with inflation running at close to 7%, real bond yields are deeply negative, with equity markets continuing to attract investors looking for an alternative.

Equity markets also continue to be supported by massive fiscal stimulus (estimated at US$20 trillion worldwide), including the recent passage of a US$1-trillion infrastructure bill. If President Joe Biden is also able to pass a version of his Build Back Better Act, it could add even more stimulus. In the meantime, the European Union is rolling out its €2.018-trillion European Recovery Plan.

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

+ Underweight bonds
+ Underweight EAFE equities

– Overweight global mid cap equities
– Overweight cash
– U.S. equity style

SUN LIFE GRANITE BALANCED, BALANCED GROWTH & GROWTH PORTFOLIOS

+ Underweight bonds
+ Underweight EAFE equities

– Overweight global mid cap equities
– Overweight cash
– U.S. equity style

SUN LIFE GRANITE INCOME & ENHANCED INCOME PORTFOLIOS

+ Overweight equities
+ Underweight bonds
+ Global equity style

– Underweight Canadian bonds

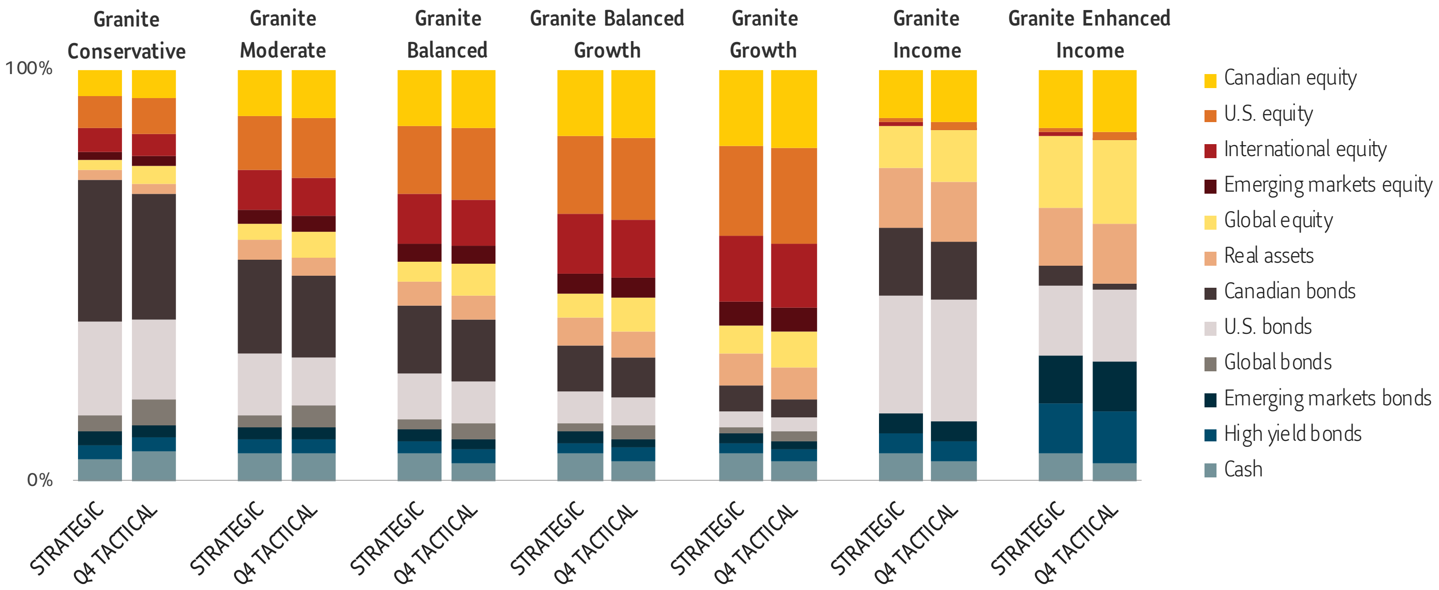
Q4 ASSET ALLOCATION (%)

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	7.0	8.9	5.2	2.2	4.4	2.6	30.8	19.3	6.1	2.9	3.8	6.9
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	11.7	14.6	9.5	3.7	6.3	4.7	19.6	11.9	5.4	2.5	3.4	6.8
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	14.3	17.3	11.5	4.4	7.4	5.9	15.2	10.4	3.6	2.5	3.4	4.3
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	16.5	20.2	13.7	5.1	8.0	6.7	9.6	6.8	3.1	2.3	3.2	4.6
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	19.0	23.2	15.7	5.8	9.0	7.8	4.1	3.5	2.5	2.0	2.9	4.5
Granite Income	STRATEGIC	12.5	1.0	1.0	0.0	10.5	15.0	17.5	30.0	0.0	5.0	5.0	2.5
	TACTICAL	12.6	2.1	0.2	0.0	12.5	14.5	14.2	29.3	0.0	5.0	5.1	4.5
Granite Enhanced Income	STRATEGIC	15.0	1.0	1.0	0.0	18.0	15.0	5.0	17.5	0.0	12.5	12.5	2.5
	TACTICAL	15.1	2.1	0.2	0.0	20.0	14.6	1.8	17.1	0.0	12.4	12.4	4.2

Data as at December 31, 2021.

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.

Q4 TACTICAL ALLOCATIONS



KEY TACTICAL CHANGES

- Valuations appear stretched and reduced overall equity exposure to neutral
- Neutral on U.S. equities but remained positive on the economy
- Commodities remained a positive on the Canadian economy.
- Reduced emerging overweight to neutral on China growth concerns.
- Given the interest rate risk, underweighted duration-sensitive issues

With interest rate risks growing in the market, we maintained our neutral weighting on U.S. equities in Q4, down from a 1.3% overweight in Q1. However, we still believe the U.S. market is well positioned to benefit from the economic recovery. Indeed, the Conference Board forecasts that U.S. Real GDP growth will come in at 6.5% (annualized) in Q4, vs. 2.1% percent in Q3 and a projected 5.6% overall for 2021.

Despite this, consumer confidence slipped in the quarter amid rising concerns about the rapidly spreading Delta variant. As well, consumer spending may also have been further dampened by rising inflation. Still, U.S. consumers are sitting on US$26 trillion in excess savings (about 12% of U.S. GDP), which could ultimately find its way into the economy, stimulating further growth.

We continued to be neutral on Canadian equities in Q4. However, while the economy did contract in the second quarter, we remain positive. Indeed, even though slowing, the economy had grown by 5.1% on the year at the end of Q2 in nominal terms above its pre-recession peak – the best performance in the G7.

While supply chain disruptions pose a risk to the economy, it continues to benefit from a strong housing market and the surging demand for commodities, including oil, natural gas and base metals like copper. As well, if interest rates trend higher, as we suspect they may, we could see further gains in the Canadian financial sector.

Throughout the market rally this year, we maintained an overweight to emerging markets (EM). However, we have moved to neutral, with the risk/reward equation balanced. On one side we have attractive valuations while on the other, we've seen a modest tightening in monetary policy with minimal fiscal stimulus to offset the impact of COVID-19 and pockets of uncertainty in China.

China's slowdown may also spill over into other economies in the region. More broadly, with the Fed moving closer to raising interest rates, the U.S. dollar has firmed. While this would help EM countries exporting products priced in U.S. dollars, it would hurt more import-dependent economies.

We have a neutral allocation to global equities overall, with our 1.8% underweight in large-cap international equities fully offset by a 2% overweight to global mid-caps.

Within that global allocation, we have exposure to Europe. Positive catalysts include accelerating vaccination rates. And allocations from the 2021-2027 European Recovery Plan are now being deployed.

In Q4, we continued to favour cash over bonds. We believe there could be a pickup in growth in Q4 along with rising inflation expectations. If so, it could push yields higher and lower bond prices. Given this, we continued to be underweight duration sensitive issues. Alternatively, we remained overweight high yield corporate bonds, with a specific allocation to intermediate-term corporates.

PERFORMANCE (%)

		SINCE INCEPTION*	7 YEAR	5 YEAR	3 YEAR	1 YEAR	Q4
Sun Life Granite Conservative Portfolio							
	Series A	4.3	3.6	3.7	5.4	2.5	1.7
	Series F	5.2	4.5	4.6	6.3	3.4	1.9
Sun Life Granite Moderate Portfolio							
	Series A	6.1	5.0	5.2	7.7	6.1	2.7
	Series F	7.3	6.2	6.5	8.9	7.3	3.0
Sun Life Granite Balanced Portfolio							
	Series A	7.1	6.0	6.3	9.3	8.1	3.3
	Series F	8.3	7.2	7.5	10.5	9.4	3.6
Sun Life Granite Balanced Growth Portfolio							
	Series A	8.0	6.7	7.1	10.4	9.9	3.8
	Series F	9.2	7.9	8.4	11.7	11.2	4.1
Sun Life Granite Growth Portfolio							
	Series A	8.8	7.4	7.9	11.6	11.8	4.3
	Series F	10.1	8.7	9.2	12.9	13.1	4.6
Sun Life Granite Income Portfolio							
	Series A	4.7	4.0	4.6	7.3	7.4	3.5
	Series F	5.7	4.9	5.6	8.3	8.3	3.7
Sun Life Granite Enhanced Income Portfolio							
	Series A	4.8	4.0	4.6	7.8	10.0	3.9
	Series F	6.0	5.2	5.8	9.0	11.3	4.2

Returns for perioids longer than one year are annualized. Data as at December 31, 2021.

*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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