



**American Equity Fund (MFS)**  
**Manulife American Equity Fund (MFS)**  
**MFS Investment Management Canada Limited**

**December 31, 2016**

**Lead manager(s):** Kevin Beatty, Ted Maloney      **Investment style:** Core

**Investment objective:** To outperform the S&P 500 Index (net dividends reinvested) over a full market cycle and to achieve a competitive ranking against relevant peer universes over the same period.

**Last meeting date:** December 2016      **Next estimated meeting date:** Q4 2017

**Current Rating:** **IN GOOD STANDING**

**Annual fund performance (%)**

	2012	2013	2014	2015	2016	5 yrs
<b>American Equity Fund (MFS)</b>	15.16	41.60	21.49	20.99	5.45	20.37
S&P 500 Composite TR Index (Net Div Reinv. )	12.80	40.38	23.18	20.83	7.38	20.40
Value added (+) / lost (-)	2.36	1.22	-1.70	0.16	-1.93	-0.03
Quartile ranking <sup>(1)</sup>	2nd	3rd	2nd	2nd	3rd	2nd

**Short-term performance analysis**

- In 2016, the Fund underperformed its benchmark and ranks in the third quartile when compared to its peers.
- Security selection was the main detractor from relative performance, particularly in the Health Care and Information Technology sectors. Valeant, an out-of-benchmark Canadian pharmaceutical company, and Endo International detracted significant value within Health Care. Amazon was also a main detractor from the Technology sector's relative performance.
- Sector allocation also produced negative results primarily due to underweight positions in the outperforming Telecommunications and Utilities sectors and an overweight allocation to the underperforming Health Care sector.
- The Manager maintains the portfolio's largest overweight allocation to Financials, particularly to major banks as the Manager believes the improved macro environment for interest rates, taxes, economic growth and regulation could lead to higher ROE's within the sector. The portfolio's largest underweight position is in Information Technology, largely driven by not owning Microsoft and Oracle, as the Manager has concerns around the companies' long term growth opportunities and current valuations. The portfolio continues to maintain underweight positions to the Telecommunications, Utilities and Energy sectors primarily due to valuation concerns.
- Based on S&P 500 style indices, value stocks outperformed on average. Given the Fund's core investment bias, its style had no impact on short-term performance.

**Long-term performance analysis**

- The Fund outperformed its benchmark in three of the past five years and produced a return that was in line with its benchmark on a five-year annualized basis. This long-term performance ranks it in the second quartile when compared to its peers.
- Security selection was negative more often than not and was the main detractor from relative performance on a five-year annualized basis.
- Sector allocation produced positive results over the long term.
- Based on S&P 500 style indices, value stocks and growth stocks performed in line with one another over the last five years. Given the Fund's core investment bias, its style had no impact on long-term performance.

## Significant corporate events

### Corporate

- There were a series of significant corporate events in 2015:

Effective January 1, 2015, the following senior management changes took place: Mike Roberge, president and chief investment officer was promoted to co-chief executive officer (co-CEO); Rob Manning, will work alongside Mike as chairman and co-chief executive officer (co-CEO). Kevin Beatty, director of Equity, North America, was promoted to chief investment officer, Global Equity, a newly created role that will assist in Mike Roberge's transition to Co-CEO. Bill Adams, MFS director of Fixed Income, was promoted to chief investment officer, Global Fixed Income, a newly created role also to assist in Mike Roberge's transition to Co-CEO.

On April 9, 2015, MFS announced that Tim Fagan, MFS' CCO, would resign at the end of May 2015.

On June 1, 2015, Brent Farmer, Vice President, Director of Corporate Risk and Compliance was appointed the interim CCO for MFS. Brent held this role until July 13, 2015, when Marty Wolin was appointed Senior Vice President and Chief Compliance Officer.

On July 15, 2015, the MFS Funds Board appointed Marty as the MFS Funds Chief Compliance Officer.

### Fund specific

- There were no significant fund specific events over the last three years.

## IMS commentary

- The Manager believes that an actively managed, diversified portfolio of high-quality stocks, purchased at reasonable prices, is the most effective means of delivering consistent, long-term outperformance on a risk-adjusted basis. Stock selection focuses on bottom-up, company analysis which is a collaborative effort between sector analysts on the MFS Global Research Platform and the US Core Equity Team. The Fund has tended to perform best in periods of low inflation, low interest rates, modest economic growth, and increasing consumer confidence. Because of the strategy's focus on quality, the Fund has also tended to perform well in markets where high quality is in favor and volatility is relatively low.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- The Fund has produced returns in line with its benchmark over the long-term and ranks in the higher quartiles when compared to peers. This consistent long term performance has been solid and in line with expectations given the strong market environment. This long-term strength mitigates any concerns in regards to 2016 underperformance, a market environment that the vast majority of active manager's struggled to keep pace with.

- Conclusion:**
- Due to the fact that 1) the Fund has produced solid performance over the long term, all the while remaining within its stated investment philosophy and style and 2) the Fund ranks in the higher quartiles when compared to peers, IMS continues to rate this Fund In Good Standing.

<sup>(1)</sup> Quartile rankings are based on the underlying fund's returns.

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