



**International Equity Fund (Guardian)
Manulife Guardian International Equity Fund
Guardian Capital LP**

December 31, 2016

Lead manager(s):	Sri Iyer	Investment style:	GARP
Investment objective:	To achieve long-term growth of capital through investment in equity or equity-related securities of issuers located outside North America.		
Last meeting date:	August 2016	Next estimated meeting date:	Q3 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
International Equity Fund (Guardian)	18.11	25.70	6.11	23.50	-2.19	13.73
MSCI EAFE Index (Net C\$) - Guardian Intl Equity Fund-I ⁽¹⁾	14.77	31.26	3.73	19.03	-2.02	12.75
Value added (+) / lost (-)	3.35	-5.55	2.39	4.48	-0.17	0.98
Quartile ranking ⁽²⁾	2nd	4th	2nd	1st	3rd	2nd

Short-term performance analysis

- Over 2016, the Fund slightly underperformed its benchmark and ranked in the third quartile relative to its peers.
- The Fund outperformed its benchmark in the fourth quarter with outperformance from the Fund's holdings in the Industrials and Health Care sectors. From a regional perspective, the majority of the Fund's outperformance came from their European holdings which bounced back after detracting over the first three quarters.
- Poor security selection was the main driver of detracted value for the year, particularly within the Consumer Discretionary, Information Technology and Materials sectors.
- Sector allocation produced a slightly positive result in 2016, primarily due to an overweight allocation to the Energy sector.
- From a regional perspective, poor security selection within Europe further detracted value for the year as the portfolio was positioned for Britain to remain in the EU.
- Based on the MSCI EAFE style indices, growth stocks slightly outperformed on average. Given the Fund's GARP investment bias, its style had limited impact on short-term performance.

Long-term performance analysis

- The Fund has outperformed its benchmark in three of the past five years, and has added value on a five-year annualized basis. This long-term performance ranks it in the second quartile when compared to its peers.
- Security selection was positive more often than not, and was the main contributor to relative value on a five-year annualized basis.
- Sector allocation produced a relatively small negative impact over the long term.
- Based on the MSCI EAFE style indices, growth stocks outperformed on average. Given the Fund's GARP investment bias, its style had limited impact on long-term performance.

Significant corporate events

Corporate

- There were no significant corporate events over the past three years.

Fund specific

- In April 2016, Guardian Capital (“Guardian”) announced that Harpreet Singh, Director of Research and Development with the Systematic Equity Team had departed from the firm. Harpreet’s research and development responsibilities were taken on by the Managing Director and lead Portfolio Manager of the Guardian global funds, Sri Iyer, who continues to be supported by a team of portfolio engineers including, Adam Cilio, Peter Michaels, and Elgin Chau.
- Also in April of 2016, the two portfolio engineers, Adam and Peter, have been promoted to portfolio managers for these strategies.

IMS commentary

- The International Equity Fund (Guardian) is a bottom-up, GARP International equity mandate that focuses on investing in quality companies with stable earnings growth. The team managing this product employs a quantitative model to identify stocks that fit these criteria. The fund will tend to outperform in steadily rising and falling markets, and underperform in more speculative, momentum driven markets with significant volatility spikes.
- The Fund continues to be managed by the systematic equity team. The team is now composed of 6 members who oversee all of the systematic global equity portfolios which includes Sri Iyer, Managing Director and Lead Portfolio Manager, 3 Portfolio Managers/Engineers, an analyst and a client facing individual. All members of the team have strong quantitative skills and remain knowledgeable about their quantitative process. Harpreet’s research responsibilities in the global strategies have been transitioned appropriately, and the team remains well-resourced.
- The Fund continue to employ the same investment process and philosophy across all mandates. This team-based research approach to the global strategies utilizes GEMX, which is a proprietary filter that runs a quantitative screen on all global stocks in their universe. The team then construct portfolios based on the model portfolios generated by their multi-factor quantitative model that is based on four valuation frameworks. There have been no changes to the process due to Harpreet’s departure.
- The Fund has added relative value over the long term and ranked in the higher quartiles. This can be partly attributed to its particular quantitative investment process, which tends to underperform in very volatile equity markets (with multiple inflection points), such as the period we have seen from 2011 to 2013. However, we have seen stronger performance from Fund management more recently than during 2011-2013 when Fund management confirmed there had been issues with inconsistent portfolio implementation.
- Over the last two years, the manager has reinforced the portfolio implementation process and the recent performance has improved and is now in line with our expectations. As well, there are no major concerns regarding Harpreet’s departure. IMS continues to be comfortable with the team and management of the Funds going forward. Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style

⁽¹⁾ The source of benchmark returns are utilizing the Bank of Canada end of day rate for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.

⁽²⁾ Quartile rankings are based on the underlying fund’s returns.

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Conclusion:

- Due to the fact that 1) we are confident the International Equity Fund is performing in line with expectations and 2) the personnel changes have been well communicated and Harpreet's roles and responsibilities have been distributed accordingly, all the while remaining within the stated investment philosophy and style, IMS continues to rate this Fund In Good Standing.

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