



**Corporate Bond Fund (SLMF)**  
**Manulife MMF Corporate Bond Fund**  
**Manulife Asset Management Ltd.**

**December 31, 2016**

**Lead manager(s):** Manulife Asset Management      **Investment style:** Corporate

**Investment objective:** To provide a bond portfolio offering superior income compared to traditional bond funds.

**Last meeting date:** September 2016      **Next estimated meeting date:** Q3 2017

**Current rating:** **IN GOOD STANDING**

### Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
<b>Corporate Bond Fund (SLMF)</b>	6.98	1.09	7.88	2.43	3.79	4.40
FTSE TMX Canada Universe Bond TR	3.60	-1.19	8.79	3.52	1.66	3.23
Value added (+) / lost (-)	3.38	2.28	-0.91	-1.09	2.12	1.19
Quartile ranking <sup>(1)</sup>	1 <sup>st</sup>	1 <sup>st</sup>	1 <sup>st</sup>	4 <sup>th</sup>	1 <sup>st</sup>	1 <sup>st</sup>

### Short-term performance analysis

- The Fund outperformed its benchmark in 2016 and ranked in the first quartile relative to its peers.
- Over the 12-month period ending December 31, 2016 and in the context of FTSE TMX Canada Universe Bond credit quality, corporate BBB-rated bonds outperformed corporate credit bonds that were rated A which outperformed the higher quality Corporate bonds rated AAA/A.
- Long term corporate bonds outperformed mid-term, which outperformed short-term corporate bonds over the same period.
- The Fund ended the period with an underweight towards AA rated bonds, with the Fund's duration in-line with the benchmark and the Fund's yield slightly higher than that of the benchmark.
- The investment manager maintains a positive outlook for corporate bonds and expect spreads to narrow. The search for yield in a persistently low interest rate environment should continue to be a significant theme, and they expect demand for corporate bonds to be robust. However, the investment manager believes the political uncertainty of a Trump-led U.S. government could subject markets to volatility in the medium to long term.

### Long-term performance analysis

- Over the observed 5-year annualized period, the Fund outperformed its benchmark index and is ranked first quartile in its category of peers.
- Over the 5-year period as measured by the FTSE TMX Canada Universe Bond Index, Corporate Bonds outperformed Government Bonds. Within Canadian corporate bonds, long-term outperformed mid-term, which in turn outperformed shorter-term bonds. In the context of FTSE TMX Canada Universe Bond Index, credit quality, corporate BBB-rated bonds outperformed corporate credit rated A which outperformed the higher quality Corporate AAA/A.

## Significant corporate events

### Corporate

- In September of 2014, Manulife Financial Corp. announced the acquisition of Standard Life PLC's Canadian operations. This transaction was closed on January 30, 2015, and the company is now part of Manulife.

### Fund specific

- Effective July 1, 2015, the Manulife Asset Management Canadian Fixed Income Team became the manager of the Fund.
- In May 2015, as part of the planned integration process, Manulife Asset Management (MAM) implemented changes to some investment teams and capabilities.
- Portfolio Manager Jean-Pierre D'Agnillo is responsible for corporate bond management for client portfolios and is the lead manager for several former Standard Life Investment (SLI) Funds. He joined Manulife Asset Management's Canadian Fixed Income team, headed by Terry Carr when Standard Life's Canadian operations were acquired by Manulife in January 2015.

## IMS commentary

- The Manulife MMF Corporate Bond Fund is an active fixed income mandate comprised primarily of Canadian corporate bonds with a credit rating of BBB or greater, which is considered investment grade for Canadian pension plans. This positions the fund as a higher quality, higher yielding income fund. The fund's main objective is to provide investors with superior income when compared to traditional bond funds.
- The Fund invests primarily in Canadian corporate bonds. The portfolio of the Fund has an average credit rating of at least BBB at all times. The Fund may also invest in corporate bonds of foreign issuers. The Fund may invest in bonds, mortgage-backed securities, asset-backed securities and other fixed income instruments denominated in Canadian or foreign currency issued by Canadian or foreign issuers. The Fund may use derivatives instruments for hedging purposes and also for non-hedging purposes in order to invest indirectly in securities or financial markets, manage or gain exposure to other currencies.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- There are no concerns with the integration of the former Standard Life investment personnel to the Manulife Canadian Fixed Income team. The team is deep, shares similar expertise with the Standard Life personnel, and had shown the ability to add value managing mandates of this type historically.
- Long-term performance under the management of Mr. D'Agnillo remains strong, the Manulife Canadian Fixed Income team has shown a specialization in adding value with corporate credit. There are no concerns.

### Conclusion:

- Due to the fact that 1) the manager has successfully integrated into the Manulife Asset Management's Canadian Fixed Income team and 2) the Fund has added relative value over the long term, all the while remaining within its stated investment philosophy and style, 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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