



**SRI US Equity Fund (Ethical Funds)**  
**Manulife Ethical SRI American Equity Fund**  
**Ethical Funds**

**December 31, 2016**

<b>Lead manager(s):</b>	AllianceBernstein LP	<b>Investment style:</b>	Specialty
<b>Investment objective:</b>	Aims to increase the value of the investment over the long term by investing mostly in the common shares of a wide variety of companies listed on North American stock exchanges. It follows a socially responsible approach to investing.		
<b>Last meeting date:</b>	Q4 2016	<b>Next estimated meeting date:</b>	Q4 2017
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

**Annual fund performance (%)**

	2012	2013	2014	2015	2016	5 yrs
<b>SRI US Equity Fund (Ethical Funds)</b>	12.74	38.76	22.90	17.70	2.00	18.21
S&P 500 CompositeTR (\$Cdn)	13.48	41.53	23.99	20.95	8.61	21.21
Value added (+) / lost (-)	-0.74	-2.77	-1.09	-3.25	-6.61	-3.00
Quartile ranking <sup>(1)</sup>	3rd	4th	2nd	3rd	4th	4th

**Short-term performance analysis**

- The Fund underperformed its benchmark in 2016 and ranked in the fourth quartile relative to its peers.
- Underperformance in the last quarter of the year, since the new manager assumed responsibility for the mandate, has been driven by both sector allocation and security selection.
- Sector allocation detracted from relative value in the most recent period due to an underweight exposure to the Financials and Energy sectors and an overweight exposure to the Information Technology and Consumer Discretionary sectors.
- Negative security selection, particularly within the Financials, Industrials and Consumer Discretionary sectors outweighed the positive selection within the Information Technology, Health Care and Energy sectors.
- Based on S&P 500 style indices, value stocks outperformed on average in the U.S. market. Given the Fund's Specialty investment bias, its style had no impact on short-term performance.

**Long-term performance analysis**

- The Fund underperformed its benchmark in each of the past five years and did not add value on a five-year annualized basis. This long-term performance ranks the Fund in the 4th quartile when compared to its peers.
- Historical performance is based on the results of the previous manager. Only performance since August of 2016 belongs to the current manager AllianceBernstein.

## Significant corporate events

### Corporate

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

### Fund specific

- NEI Investments selected AllianceBernstein to take over from Manning & Napier in August 2016 as the new manager for the NEI Ethical American Multi-Strategy mandate.

## IMS commentary

- The SRI US Equity Fund (Ethical Funds) is a socially responsible U.S. equity mandate that is sub-advised by AllianceBernstein LP. The AllianceBernstein investment process is a differentiated approach that focuses on Quality, Stability and Price; research that drives conviction, and downside risk management.
- Management at NEI Investments decided to replace Manning & Napier as the subadvisor on this Fund due to concerns related to performance, adjustments in how the investment process was implemented and organizational changes at the firm. Alliance Bernstein was chosen as the replacement following the NEI Manager Selection Process. IMS shared concerns in regards to Manning & Napier's approach, and will be following up with the new management team again in the near future.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has underperformed its benchmark over the long-term and ranks below the median. We attribute this in part to the Fund's Specialty investment bias as the Fund's ethical approach would have detracted some value relative to the broad market over the past few years, particularly in 2016 when the resource sectors were among the strongest performing sectors for the year.

### Conclusion:

- Due to the fact that the Fund has achieved its objectives as a socially responsible U.S. equity investment mandate over the long term, and that IMS shared concerns in regards to the recently replaced sub-fund manager, IMS continues to rate this Fund In Good Standing and will be meeting to assess the new management team again in the near future.

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

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