

## Manulife Asset Management Long Duration Fixed Income Fund Long Term Bond (SLI)

December 31, 2016

<b>Lead manager(s):</b>	Manulife Asset Management	<b>Investment style:</b>	Active
<b>Investment objective:</b>	To provide an investment vehicle suitable for matching long-term liabilities by investing primarily in Canadian dollar denominated investment-grade bonds.		
<b>Last meeting date:</b>	September 2016	<b>Next estimated meeting date:</b>	Q3 2017
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

### Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
<b>Manulife Asset Management Long Duration Fixed Income Fund</b>	5.68	-5.68	16.67	3.28	2.49	4.24
FTSE TMX Canada Long Term Bond Total Return	5.21	-6.16	17.48	3.80	2.47	4.29
Value added (+) / lost (-)	0.47	0.48	-0.81	0.52	0.02	-0.05
Quartile ranking <sup>(1)</sup>	2 <sup>nd</sup>	2 <sup>nd</sup>	4 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>	4 <sup>th</sup>

\*Portfolio management responsibility of the Long Term Bond Fund (SLI) was transferred to the MAM Canadian Fixed Income team in May of 2015. The fund is now managed with the same investment philosophy and process as the MAM Long Duration Fixed Income Fund. As such, the above contains the performance track record for this Fund which differs from the long-term track record of the Long Term Bond Fund (SLI), but is more instructive of the current management team's performance track record.

### Short-term performance analysis

- The Fund performed in-line with its benchmark in 2016 and ranks in the fourth quartile relative to its peers.
- The Fund ended the period with a slight underweight to government bonds and an overweight allocation to corporate bonds.
- Based on FTSE/TMX Canada Long Term Bond Index, long term bonds have shown strong absolute performance in this environment of declining rates and low inflation however absolute returns turned negative in the second half of the year as Canadian bonds followed a repricing of global bond yields.
- Over the most recent 12-months, the FTSE/TMX Canada Long-Term Bond Index outperformed its Mid and Short-Term Index counterparts.
- Within the Long-Term Index, Corporate bonds performed better than Government bonds over 2016, which could be expected to benefit the Fund managers' strategy given its overweight allocation to corporate bonds.
- 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

- The Fund has performed in-line with its benchmark over a 5-year return history and ranks fourth quartile against peers.
- Based on FTSE/TMX Canada Long Term Bond index, long term bonds have shown strong performance in the environment of declining rates and low inflation.
- Over the most recent 5-year annualized period the FTSE/TMX Long-Term Bond Index outperformed its Mid and Short-Term Index counterparts. Within the Long-Term Index and over the same timeframe, Corporate bonds performed better than Government bonds overall, which could be expected to be a positive to Fund management's strategy which has been overweight to corporate bonds.

## Significant corporate events

### Corporate

- In September 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

- In May 2015, as part of the planned integration process, Manulife Asset Management (MAM) implemented changes to some investment teams and capabilities. The Standard Life Long Duration Bond Fund formerly SLI Canada is now managed by the Manulife Canadian Fixed Income team, which now includes members of the former SLI Canada Fixed Income team.
- Going forward, the fixed income team responsible for all actively managed Canadian fixed income strategies are headed by Terry Carr, the Head of MAM Canadian Fixed Income Team in Toronto. Jean-Pierre D'Agnillo, Ara Froundjian and Jose Saracut from the former SLI Canadian fixed income team have joined the MAM team, expanding its membership to 14 investment professionals.

## IMS commentary

- The bond portfolio management approach is based on a balanced mix of interest rate anticipation, sector allocation and security selection. The portfolio is managed based on a three- to six-month interest rate expectation. A large portion of the Fund is invested in government, provincial and corporate bonds of maturity greater than 10 years. Other investments could also include Foreign-Pay Bonds and Real Return Bonds. Investments can be made directly and/or indirectly and are high grade and liquid such that the portfolio can be restructured as expectations and relative values change.
- There are no concerns with fund management, the Manulife Canadian fixed income team has been strengthened through the Standard Life integration and long-term performance remains strong.
- 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 has shown the ability to add value managing mandates of this type historically.

**Conclusion:**

- Due to the fact that the Fund has performed in-line with expectations 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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