



Balanced Fund (Beutel Goodman)
Manulife Balanced Fund (Beutel Goodman)
Beutel, Goodman & Company Ltd.

December 31, 2016

Lead manager(s):	Mark Thomson	Investment style:	Active
Investment objective:	This fund seeks to enhance long-term capital value by investing in cash and cash equivalents, fixed income securities and Canadian, U.S. and International equity securities.		
Last meeting date:	Q2 2016	Next estimated meeting date:	Q2 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Balanced Fund (Beutel Goodman)	11.01	17.46	9.24	4.66	10.27	10.45
Blend BM Calculation - MLI Beutel Goodman Balanced Fund	7.29	11.74	10.04	3.74	7.81	8.09
Value added (+) / lost (-)	3.72	5.72	-0.81	0.90	2.47	2.36
Quartile ranking ⁽¹⁾	1st	2nd	4th	3rd	1st	2nd

Benchmark: 40% FTSE TMX Canada Universe Bond Index + 30% S&P/TSX Composite TR Index + 12% S&P500 C\$ + 13% MSCI EAFE C\$ + 5% FTSE TMX Canada 91 Day T-Bill

Short-term performance analysis

- The Fund outperformed its benchmark in 2016 and ranked in the first quartile relative to its peers.
- Over the past year, most of the value added has come from the performance of the individual components within the Fund. The asset mix has also contributed positively to relative value in the last 12 months.
- Performance was particularly strong within the U.S and International equity components of the Fund. Fixed income performance was also positive. The only slight negative was from the Canadian equity component, which underperformed largely due to holdings within the Energy and Materials sectors.
- Asset allocation was positive, particularly from an underweight position in fixed income and a corresponding overweight position in Canadian equities. An overweight exposure to International equities detracted from relative value since it was one of the lower performing asset classes in 2016 in terms of absolute performance.
- For many of the regional equity indices, value stocks outperformed on average. Given the firm's value investment bias, its style had a positive impact on short-term performance within the equity components.

Long-term performance analysis

- The Fund outperformed its benchmark in four of the past five years and has added value on a five-year annualized basis. This long-term performance ranks in the second quartile when compared to its peers.
- The asset mix positioning of the Fund has consistently added value over time. Canadian and U.S. equity performance has been positive more often than not, while performance within the fixed income and International equity components has detracted from relative value more often than not over the long term.

Significant corporate events

Corporate

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

Fund specific

- In January 2016, Beutel Goodman announced the hiring of Derek Brown as SVP Fixed Income. Mr. Brown will be co-lead portfolio manager with David Gregoris on the firm's fixed income strategies.
- Effective February 20, 2015, Beutel Goodman implemented a co-management structure for all non-domestic portfolio strategies. As a result, Colin Ramkissoon would co-manage the Global Equity strategy with Glenn Fortin going forward.
- In 2014, Beutel Goodman announced that Bruce Corneil, Managing Director of Fixed Income, would retire from the firm effective March 31, 2015. The fixed income team is now headed by David Gregoris, CFA, who has worked alongside Mr. Corneil since 1994 in his roles as portfolio manager and strategist.
- Beutel Goodman announced that on July 1st, 2013, a re-alignment to the Non-Domestic equity team took effect. A co-management structure was implemented for their three major non-domestic strategies:
 - American Equity (Glenn Fortin and Rui Cardoso)
 - International Equity (KC Parker and Colin Ramkissoon)
 - Global Equity (Glenn Fortin and KC Parker).
- Beutel Goodman announced the addition of Stanley Wu to the US and global equity team effective November 15, 2016 as analyst and portfolio manager. Mr. Wu is to work alongside KC Parker as co-manager of the International Equity portfolio.

IMS commentary

- The Balanced Fund (Beutel Goodman) is a bottom-up, value-oriented balanced equity mandate that emphasizes investing in companies with strong fundamentals trading at discounts to their intrinsic value. The fixed income component emphasizes generating added value primarily through active management of duration, movements in the yield curve as well as being attentive to credit spreads. Beutel Goodman's value process typically performs well in the early to mid-stages of a market cycle, tends to lag somewhat in the later stages as valuations become excessive and then normally outperforms significantly in downturns.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- While there have been concerns about select individual components of the Fund, particularly the Fixed Income and International Equity mandates, the firm has recognized these issues and has acted to address them. Both these components have shown improved performance over the past year. The Beutel Goodman Fixed Income Fund remains under Increased Scrutiny.
- The Fund continues to perform well from a long-term perspective with above benchmark returns and above median performance over the five-year annualized period.

Conclusion:

- Due to the fact that 1) the Fund has outperformed its benchmark over the long term, all the while remaining within its stated investment philosophy and style, 2) outperformance has been in part, a factor of positive stock selection and 3) the Fund ranks in the higher quartiles when compared to its peer group, IMS continues to rate this fund In Good Standing.

⁽¹⁾ Quartile rankings are based on the underlying fund's returns.

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