



**International Equity Fund (Templeton)  
Manulife Templeton International Equity Fund  
Franklin Templeton Investments Corp.**

**December 31, 2016**

<b>Lead manager(s):</b>	Maarten Bloemen	<b>Investment style:</b>	Value
<b>Investment objective:</b>	To achieve long-term capital appreciation by investing primarily in a diversified portfolio of equity securities of companies around the world, excluding Canada and the U.S.		
<b>Last meeting date:</b>	February 2016	<b>Next estimated meeting date:</b>	Q1 2017
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

**Annual fund performance (%)**

	2012	2013	2014	2015	2016	5 yrs
<b>International Equity Fund (Templeton)</b>	15.14	35.83	1.56	16.59	-1.56	12.76
MSCI EAFE TRI (\$Cdn) <sup>(1)</sup>	15.33	31.81	4.18	18.84	-1.53	13.13
Value added (+) / lost (-)	-0.19	4.02	-2.63	-2.25	-0.03	-0.37
Quartile ranking <sup>(2)</sup>	4th	1st	4th	4th	2nd	3rd

**Short-term performance analysis**

- Over 2016, the Fund very slightly underperformed its benchmark and ranks in the second quartile relative to its peers.
- The Fund significantly outperformed in Q4 of the year, most notably through the Fund's underweight to the Consumer Staples Sector as Fund management views the majority of companies within the sector as having exhibited expensive valuations. An overweight to the Energy sector also contributed. This significant outperformance was balanced out by underperformance across the first three quarters of the year, resulting in in-line performance for the year.
- This significant underperformance across the first three quarters of the year was primarily attributable to the Fund's poor security selection. Sector allocation, a residual of bottom-up stock selection also had a negative impact. In particular, the Fund's overweight exposure to and stock picking within banks within the Financials sector detracted the most value. The Fund's holdings in European financial companies, an area which the Fund had a relatively large exposure to, was impacted negatively due to market sentiment after UK's Brexit vote in June 2016.
- Based on the MSCI EAFE style indices, growth stocks very slightly outperformed on average. Given the Fund's value investment bias, its style had a negligible impact on short-term performance.

**Long-term performance analysis**

- The Fund outperformed its benchmark in only one of the past five years and has failed to add value on a five-year annualized basis. This long-term performance ranks it in the third quartile when compared to its peers, although overall performance has remained close to the index over the long-term.
- Sector allocation was negative more often than not and was the main detractor of relative value on a five-year annualized basis.
- Security selection produced mixed results over the long term.
- Based on the MSCI EAFE style indices, growth stocks outperformed on average. Given the Fund's Value investment bias, its style had a negative impact on long-term performance.

## Significant corporate events

### Corporate

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

### Fund specific

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

## IMS commentary

- Although the International Equity Fund (Templeton) utilizes a value oriented investment approach, its emphasis is not necessarily to offer superior protection in a down-market, but rather it attempts to locate out-of-favor stocks in which long-term fundamentals appear intact, in both developed and emerging markets and throughout all economic sectors. Thus, performance patterns will not necessarily follow other more classic value managers.
- This unique, value-based approach can result in significant deviations from the benchmark in terms of both portfolio positioning and performance. Fund management has consistently taken a long-term view and maintained their conviction and positioning despite some periods of short-term underperformance. Over the past few years, this positioning has included overweight allocations to European Financials and integrated Energy companies that have impacted performance. Fund management has been able to justify its positioning in light of currently prevailing valuations; however investors should be aware of the potential for this Fund to be out of favor relative to the index and peers.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has slightly failed to add relative value over the long term and ranks slightly below the median. However, we attribute this underperformance in large part to the Fund's deep value investment style being out of favor over that time span. IMS is closely monitoring performance. However this Fund's approach can lead it to a performance track record that is significantly different than that of the benchmark. Fund positioning has been long maintained and remains in-line with portfolio management's current views.

### Conclusion:

- Due to the fact that 1) we are confident that the manager has remained within the stated investment philosophy and style and 2) the Fund's underperformance over the long term can primarily be attributed to its investment style, IMS continues to rate this Fund In Good Standing.

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

<sup>(2)</sup> Quartile rankings are based on the underlying fund's returns.

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