



**Manulife Greystone Canadian Equity Fund
Greystone Managed Investment Inc.**

December 31, 2016

Lead manager(s):	Himanshu Sharma	Investment style:	Growth
Investment objective:	To seek superior long-term capital appreciation by investing in the equity securities of Canadian companies		
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
Manulife Greystone Canadian Equity Fund	7.60	19.21	11.78	-5.92	11.80	8.57
S&P/TSX TRI	7.19	12.99	10.55	-8.31	21.08	8.25
Value added (+) / lost (-)	0.41	6.22	1.23	2.39	-9.28	0.32
Quartile ranking ⁽¹⁾	3rd	3rd	2nd	3rd	4th	4th

Short-term performance analysis

- Over 2016 the Fund has significantly underperformed its benchmark and ranked in the 4th quartile versus peers.
- A strong and sharp rally over 2016 from the materials sector, particularly in gold miners, has been a strong driver of market returns; the quantitative process underpinning this Fund has historically lagged during a sharp turn in market sentiment.
- The Fund ended the period with its largest weights within the financials, energy and materials sectors
- Despite the overall positioning in financials, an underweight to the large banks detracted as they performed well versus other financial sector peers.
- Based on Dow Jones Canada Select style indices, value stocks have strongly outperformed growth stocks on average over the 12-month period. Given the Fund's growth investment style, its style was a headwind relative to the broad-based S&P/TSX Composite Index.

Long-term performance analysis

- The Fund has underperformed its benchmark over a 5-year period and ranks in the 4th quartile versus peers.
- Nearer term results have dragged down the Fund's longer-term trailing returns.
- Based on Dow Jones Canada Select style indices, value stocks have outperformed growth stocks on average over the 5-year period. Given the Fund's growth investment style, its style was a headwind relative to the broad-based S&P/TSX Composite Index.

Significant corporate events

Corporate

- In November 2016 Greystone announced structural approach changes to their equity investment franchise.
- 1. Greystone has appointed Jeff Tiefenbach in a newly created CIO, Public Equities role
- 2. The creation of two new functional teams, a Fundamental Research team and Quantitative Research/Risk Management team, reporting into Jeff Tiefenbach.
- 3. Analyst teams will research on a global sector basis, rather than a regional approach.
- 4. Each equity portfolio will take on a two portfolio manager structure.

Greystone sees these changes as an enhancement in an increasingly complex and globalized world.

Fund specific

- In November 2016 Greystone announced that Himanshu Sharma will join James Baldwin in leading the Canadian equity portfolio in addition to his Fundamental Research team responsibilities
- In June 2015 James Baldwin took over as Head of Canadian Equities following the planned retirement of previous Head, Donnie MacKay.

IMS commentary

- Believing a company's stock reacts positively to growth in earnings and cash flow, the manager uses quantitative and qualitative methods to construct and manage a concentrated, growth-focused portfolio from the bottom up.
- The manager believes that stock markets have inefficiencies. Specifically, they believe that markets do not immediately detect sustainable changes at the company level so that indicators of sustainable earnings growth appear at the company level before they are recognized in the company's stock price. Their investment discipline attempts to capitalize on this by seeking out sustainable earnings growth factors and incorporating them in a focused, "best stocks" portfolio of companies across all industries. Sector allocations are a residual of their security selection.
- Greystone's team approach looks to ensure the consistency of its process over time, but also tries to employ disciplined objectivity in the investment decisions themselves. The entire team vets all buy and sell decisions based on their individual quantitative and qualitative merits, and from the perspective of a commonly-held investment philosophy.
- Total assets managed at the firm remain stable from a year ago.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The magnitude of recent underperformance is disappointing. IMS is closely evaluating performance and positioning, although the recent market environment has not been amenable to Fund management's style or philosophy.

Conclusion:

- Despite the corporate and Fund changes mentioned within the Significant Corporate Events section, Greystone's Fund management has been consistent in adhering to their stated investment philosophy, process and style. Near-term performance has suffered due to a strong value market and a sharp inflection point turn in the materials sector, an environment where a quantitative manager could be expected to lag in such a strong performing rally. Despite this recent underperformance, we continue to rate this Fund in Good Standing.

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

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