



Manulife Mawer U.S. Equity Fund
Mawer Investment Management Ltd.

December 31, 2016

Lead manager(s):	Grayson Witcher, Colin Wong	Investment style:	GARP
Investment objective:	To provide above-average long-term, risk-adjusted returns from both capital gains and dividend income by investing primarily in equity and equity-related securities of US entities.		
Last meeting date:	June 2016	Next estimated meeting date:	Q2 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Manulife Mawer U.S. Equity Fund	13.16	43.26	22.10	20.61	6.78	20.58
S&P 500 CompositeTR (\$Cdn) ⁽¹⁾	13.48	41.53	23.99	20.97	8.61	21.21
Value added (+) / lost (-)	-0.32	1.73	-1.89	-0.35	-1.83	-0.63
Quartile ranking ⁽²⁾	3rd	2nd	2nd	2nd	3rd	2nd

Short-term performance analysis

- Over 2016, the Fund has underperformed its benchmark and ranked in the third quartile compared to its peers.
- The Fund considerably underperformed its benchmark in Q4. Negative results were driven by the Fund's underperformance in the Financials sector. This was the result of not participating in the strong returns recorded by a number of sub-segments in the sector, including investment banks, as well as life insurance and consumer finance companies. The Fund's investments in the Consumer Discretionary (LKQ Corp.) sector also lagged the benchmark, further impacting performance. This significant underperformance followed outperformance across the first three quarters of the year.
- Outperformance in the first three quarters was primarily attributable to strong security selection. In particular, the Fund's positioning within the Consumer Discretionary, Financials, and Health Care sectors added the most value. Overall, the Fund added value in 6 out of 9 market sectors in which it was invested.
- Sector allocation was negative overall for the year. The lack of exposure to the Utility sector as well as an underweight exposure to the Energy and Consumer Staples sectors as well as overweight to Financials detracted value.
- The Fund initiated two new positions in the fourth quarter: Cerner Corp. and NIKE. Meanwhile, Wabtec and WW Grainger were eliminated from the portfolio. The Fund's top sector exposures as at year end are IT, Financials, and Health Care.
- Based on S&P 500 indices, value stocks outperformed growth in the period. Given the fund's GARP investment bias, its style acted as a headwind to short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in only one of the past five years but produced returns that were largely in line with the benchmark on a five-year annualized basis. The long-term performance ranks it in the second quartile when compared to its peers.
- Sector allocation was the primary contributor to relative performance as the Fund has underweight positions in several underperforming sectors.
- Security selection produced mixed results over the longer term.
- Based on S&P 500 style indices, growth stocks slightly outperformed value stocks on average. Given the Fund's GARP investment bias, its style had a limited impact on long-term performance.

Significant corporate events

Corporate

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

Fund specific

- Effective February 1, 2016, Colin Wong was named co-Portfolio Manager of the Fund as well as all U.S. equity strategies managed at Mawer. He joined current Portfolio Manager, Grayson Witcher who continued in his role as lead manager.

IMS commentary

- The investment team's investment philosophy orients them towards those companies with three crucial characteristics: wealth-creating companies, excellent management teams, and companies bought at discounts to their intrinsic values. The team focuses on wealth-creating companies which are defined as companies that have a return on invested capital greater than their cost of capital and they purchase these companies at what they believe to be a discount to their intrinsic value. The investment process focuses on fundamental bottom-up research and uses Monte Carlo simulations to perform sensitivity analysis.
- Effective February 1, 2016, Colin Wong was named co-Portfolio Manager of the Fund as well as all U.S. equity strategies managed at Mawer. He joins current Portfolio Manager, Grayson Witcher who continued his role as lead manager.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style. We have no concerns with the appointment of Colin Wong as co-manager of this Fund as Colin has worked closely with Grayson within the U.S. Equity team since 2012 and the team remains stable overall.
- The Fund has produced returns that were largely in line with its benchmark over the long term and ranks in higher quartiles in most of the periods measured.
- On a rolling 1 year basis, the Fund outperformed in only one of the past five years, which has for the most part been in line with our expectation as the Fund tends to lag the market in performance in a strong growth market environment due to the manager's investment style. The recent years market environment has been very difficult for the majority of active managers to keep pace within the US equity market, as there has been excessive volatility with shifting market leadership. Throughout this environment, Fund management has consistently applied their process and strategy, and IMS maintains conviction that this approach has the ability to add value over the full market cycle.

Conclusion:

- Due to the fact that 1) the Fund's performance has been largely in line with its benchmark, all the while remaining within its stated investment philosophy and style, 2) the Fund ranks in the higher quartiles when compared to its peer group, IMS continue to rate this Fund In Good Standing.

⁽¹⁾ 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.

⁽²⁾ Quartile rankings are based on the underlying fund's returns.

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