



Manulife Fidelity U.S. Focused Fund Fidelity Investments Canada

December 31, 2016

Lead manager(s):	Stephen DuFour	Investment style:	GARP
Investment objective:	The Fund aims to achieve long-term capital growth by investing primarily in U.S. equity securities through a concentrated portfolio.		
Last meeting date:	Q4 2016	Next estimated meeting date:	Q4 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Manulife Fidelity U.S. Focused Fund	12.91	46.40	15.12	21.54	0.79	18.44
S&P 500 CompositeTR (\$Cdn)	13.48	41.53	23.99	20.97	8.61	21.21
Value added (+) / lost (-)	-0.57	4.87	-8.87	0.57	-7.82	-2.77
Quartile ranking ⁽¹⁾	3rd	1st	4th	2nd	4th	4th

Short-term performance analysis

- In 2016 the Fund significantly underperformed its benchmark and ranked in the fourth quartile relative to its peers.
- The Fund also significantly underperformed its benchmark in the fourth quarter of 2016. The Fund's investments in Financials and the Consumer Discretionary sectors were the largest detractors from Fund performance, as value companies, particularly within Financials significantly advanced following the US election.
- The Fund's underperformance for the year was mainly attributable to poor sector allocation, which is a residual of the bottom-up, fundamental process of the Fund rather than due to top-down calls. In particular, the underweight exposure to the Utilities and overweight exposure to the Information Technology sectors as well as varying exposures within other sectors detracted from performance.
- Security selection was also negative for the year, driven by positioning within the Energy and Information Technology sectors.
- During the fourth quarter Fund management made changes in the Fund's positioning in an attempt to take advantage of current market conditions. Weights were increased to the Financials and Industrials sectors, with weights to the Consumer Discretionary and IT sectors lowered. At the end of the year, the Fund's largest sector exposures were to the Financials and IT sectors.
- Based on S&P 500 indices, value stocks outperformed growth in 2016. Given the fund's GARP investment bias, its style acted as a headwind in terms of performance.

Long-term performance analysis

- The Fund underperformed its benchmark in three of the past five years and has detracted value on a five-years annualized basis. This long-term performance ranks in the fourth quartile when compared to its peers.
- The majority of outperformance is expected to come from security selection as sector allocation is a residual factor to Fund management's process. Sector allocation was positive and was the main driver of added value on a five-year basis.
- Based on S&P 500 style indices, growth stocks slightly outperformed value stocks on average. Given the Fund's GARP investment bias, its style did not have a large significant impact on long-term performance.

Significant corporate events

Corporate

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

Fund specific

- There have been no significant fund specific events over the last three years.

IMS commentary

- The Fidelity U.S. Focused Fund's process incorporates fundamental, technical and quantitative criteria. Each discipline is emphasized during different times of the economic cycle. The bottom-up quantitative aspect focuses on liquidity, valuation and earnings growth. The fundamental process is to ensure that the success of the company is not 'binary' and that the long-term stability of earnings is highly probable. The technical element helps the team validate their investment thesis.
- This portfolio has been managed by Steve DuFour since February 2013 after he took over management of this fund from Young Chin (who retired at the end of 2013) and he believes the resulting portfolio is a core/high growth, large-cap portfolio with complete flexibility to invest in the best opportunities found by Fund management. Steve DuFour has been with Fidelity since 1992 and has been a portfolio manager since 1993. Mr. DuFour currently manages a number of U.S. equity funds, including the Fidelity Fifty Fund and the Fidelity Focused Stock Fund. He also co-manages the Fidelity Worldwide Fund, the Fidelity Advisor Worldwide Fund and the Fidelity Global Balanced Fund.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- Mr. DuFour's process remains transparent and has been consistently applied historically. As the markets and technology have changed over time, Mr. DuFour has also looked to make adjustments to his process and strategy. This willingness to adapt is noted, but must be closely monitored to ensure that despite any adjustments, that clients are still being provided with the expected, concentrated exposure to US equity investing.
- The Fund has underperformed its benchmark over the long-term, and ranks in the lower quartiles when compared to peers. IMS will continue to monitor the fund carefully over the coming quarters for stability and consistency of performance. Steve DuFour continues to manage the Fund according to its stated philosophy and process and there have been no serious issues following the turnover within Fund management in 2013. Only the performance since 2013 belongs to the current management's performance track record. Since his appointment to the mandate, the Fund has alternated 1st and 4th quartile performance, 2016 underperformance was in part due to the Fund's style and process which is a mitigating factor.

Conclusion:

- Due to the fact that 1) the Fund has remained within its stated investment philosophy and style since the PM took over management in 2013 and 2) performance has largely been in-line with expectations since then, IMS continues to rate this Fund In Good Standing.

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

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