



**Manulife Canadian Bond Fund I (Fidelity)
Fidelity Investments Canada ULC**

December 31, 2016

Lead manager(s): Catriona Martin and Sri Tella

Investment style: Active

Investment objective: The Fund aims to provide a steady flow of income by investing primarily in Canadian Fixed Income securities

Last meeting date: September 2016

Next estimated meeting date: Q3 2017

Current rating: IN GOOD STANDING

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Manulife Canadian Bond Fund I (Fidelity)	4.65	-0.90	8.91	3.34	2.32	3.61
FTSE Universe Overall Bond TR	3.60	-1.19	8.79	3.52	1.66	3.22
Value added (+) / lost (-)	1.04	0.29	0.12	-0.19	0.66	0.39
Quartile ranking ⁽¹⁾	2nd	3rd	2nd	3rd	2nd	2nd

Short-term performance analysis

- The Fund has outperformed its benchmark in 2016 and ranks in the second quartile relative to its peers.
- The Fund outperformed its index in Q4 of 2016 slightly, although did so while providing negative absolute returns. The Fund's underweight allocation to Federal bonds continued to add value as yields rose during the quarter. The Fund's long-maintained overweight to corporate bonds did detract value, particularly the Fund's overweight to the infrastructure sector.
- For the year, both sector allocation and security selection added value in both the Federal and Corporate bond sectors. The Fund's overweight exposure to the Corporate sector further added value as a result of higher incremental yields in corporate bonds. From a security selection perspective, the Fund's exposure to Financials, Industrials and Real Estate sectors also contributed to the positive relative performance.
- The Fund's underweight exposure to the government sector also added value as this sector underperformed the broad index over the period.
- Fund management believes that Canadian economy will continue to exhibit low growth, resulting in government bond yields staying lower in the near future given the low inflation rate environment. As a result, Fund management has maintained their larger than benchmark allocation to corporate bonds.

Long-term performance analysis

- The Fund outperformed its benchmark in four of the past five years and has added value on a five-years annualized basis. This long-term performance ranks in the second quartile when compared to its peers.
- The Fund's duration remains close to that of the benchmark. Fidelity does not rely significantly on active duration management, but instead maintains duration within a relatively narrow band around that of the benchmark. As such, the portfolio's duration is not expected to differ largely from the benchmark over the longer term.
- Based on the FTSE TMX Universe Bond sub-indices, the investment grade fixed income market outperformed high yield bonds market given its high credit quality characteristics over the past five years. Government bonds (and in particular, Provincials) generally outperformed Corporates. Higher quality government securities performed well during a period of heightened volatility. Given the Fund's credit-focused bias, its approach did not have a significant impact on long-term results.

Significant corporate events

Corporate

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

Fund specific

- Brian Miron, the co-portfolio manager on the Fidelity Canadian Fixed Income team has made a personal decision to retire. His portfolio management responsibilities were transitioned effective April 1, 2015; Mr. Miron remained with Fidelity until June 30, 2015. Sri Tella assumed co-portfolio management responsibilities alongside current co-portfolio manager, Catriona Martin at that time.

IMS commentary

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- The Fidelity Canadian Bond Fund is an actively managed mandate with an investment philosophy that follows the belief that inefficiencies exist in the fixed income markets, and that both effective credit and quantitative research efforts and highly focused trading can consistently identify opportunities to earn a relative advantage over the investment benchmark. The team uses asset allocation, sector rotation, security selection and yield curve positioning to drive alpha.
- Within the Fixed Income team at Fidelity, there are 200 investment professionals that operate within a team based structure. Each fixed income mandate is managed by a team composed of portfolio management, credit research, quantitative research and trading professionals. There are no immediate concerns with the 2015 changes to the team as Ms. Martin has continued to manage the Fund as a co-portfolio manager. The personnel change has not resulted in any modifications to the investment process of the fund in the 18 months since Mr. Miron's retirement. IMS will continue to review and monitor this team development.
- Regarding Sri's promotion to co-PM, IMS has no major concerns as he has close to 20 years of experience within the industry and has worked with Brian Miron and Catriona Martin since 2008 as a dedicated Canadian bond trader. He has been a long-time member of Fidelity's Canadian fixed income team.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style. Fidelity continues to have the depth and breadth of a large research platform to cover fixed income securities.
- The Fund has modestly outperformed over the long-term and ranks in the higher quartiles. Overall, this is a very strong team with a clear investment process and philosophy. The mandate has performed very well over all parts of the credit and economic cycle. We are pleased that the investment team has done so by using multiple sources of alpha rather than focusing on a single driver of performance.

Conclusion:

- Due to the fact that 1) the Fund has outperformed its benchmark in four of the five rolling 1 year periods and performing close to the benchmark in longer annualized periods, all the while remaining within its stated investment philosophy and style, 2) outperformance has been in part a factor of positive security selection and 3) the Fund team is large and deep and has historically appropriately handled turnover, IMS continues to rate this Fund In Good Standing.

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

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