



**Manulife Fidelity Canadian Large Cap Fund
Fidelity Asset Management Canada**

December 31, 2016

| | | | |
|------------------------------|--|-------------------------------------|---------|
| Lead manager(s): | Daniel Dupont | Investment style: | Value |
| Investment objective: | The Fund aims to achieve long-term capital growth by investing primarily in equity securities of Canadian companies and tends to focus on large companies. | | |
| Last meeting date: | Q3 2016 | Next estimated meeting date: | Q3 2017 |
| Current rating: | IN GOOD STANDING | | |

Annual fund performance (%)

| | 2012 | 2013 | 2014 | 2015 | 2016 | 5 yrs |
|--|--|-------|-------|------|-------|-------|
| Manulife Fidelity Canadian Large Cap Fund | 8.43 | 39.76 | 13.16 | 6.01 | 12.72 | 15.43 |
| Blend: MLI Fidelity Canadian Large Cap* | 9.68 | 21.16 | 15.86 | 0.21 | 17.52 | 12.64 |
| Value added (+) / lost (-) | -1.25 | 18.60 | -2.70 | 5.80 | -4.81 | 2.79 |
| Quartile ranking ⁽¹⁾ | 3rd | 1st | 2nd | 1st | 3rd | 1st |
| Benchmark: | 70% S&P/TSX Capped Index + 30% S&P 500 Index (Can\$) | | | | | |

Short-term performance analysis

- In 2016, the Fund underperformed its benchmark and ranks in the third quartile within the Canadian Focused Equity peer group.
- A large cash position (15%) was the main detractor from relative performance.
- Security selection and sector allocation also produced slightly negative results. Positive security selection in the Energy and Health Care sectors was offset by negative selection in the Materials, Utilities and Consumer Staples sectors. Underweight allocations to the strongly performing Financials and Energy sectors were the main detractors with regards to sector allocation.
- Geographically, the Fund's overweight allocation to the U.S. market detracted from relative performance.
- The Manager continues to favor non-cyclical sectors and maintains overweight positions in the Consumer Staples and Telecommunications sectors. Meanwhile, the portfolio remains significantly underweight in the Financials and Materials sectors. Exposure to the U.S. market remains in line with its custom benchmark and the large cash position is also maintained.
- Based on S&P/TSX style indices, value stocks outperformed on average. Given the Fund's value investment bias, its style had a positive impact on the short-term performance.

Long-term performance analysis

- The Fund only outperformed its benchmark in two of the past five years but added value on a five-year annualized basis. This long-term performance ranks it in the first quartile when compared to its peers.
- Security selection was positive more often than not and was the main driver of added value on a five-year annualized basis.
- Sector allocation also produced positive results over the long term.
- Based on S&P/TSX style indices, value stocks outperformed on average. Given the Fund's value investment bias, its style had a positive impact on long-term performance.

Significant corporate events

Corporate

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

Fund specific

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

IMS commentary

- The portfolio manager of the Fidelity Canadian Large Cap Fund employs a bottom-up, fundamental process and a highly disciplined approach to security selection with respect to the quality and potential of a business and its purchase price. The Manager aims to protect capital first and foremost by buying strong companies at the right price. He uses Fidelity's research resources to help identify potential investments and applies strict investment criteria to construct a concentrated, benchmark agnostic portfolio. The Manager invests in equities across the capitalization range, but will focus on larger cap Canadian stocks, with a flexibility to include global securities where opportunities exist.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- Since Daniel Dupont took over responsibility for portfolio management in 2011, the Fund has produced strong returns over the long term and ranks in the higher quartiles. Outperformance has been primarily driven by positive security selection, the Manager's stated primary source of added value.
- Fund management's unique approach, high cash weight, and tendency to underweight the resource sectors could lead to underperformance in strongly positive markets driven by these markets. Given the market environment in 2016, the Fund's near-term underperformance is largely in line with its investment style and our expectations and there are no concerns.

Conclusion:

- Due to the fact that 1) the Fund has outperformed its benchmark over the long term, all the while remaining within its stated investment philosophy and style, 2) outperformance has been primarily a factor of positive stock selection and 3) the Fund ranks in the higher quartiles, IMS continues to rate this Fund In Good Standing.

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

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