



Global Equity Fund (Hexavest)
Manulife Hexavest Global Equity Fund
Hexavest Inc.

December 31, 2016

Lead manager(s): Vital Proulx **Investment style:** Macro

Investment objective: The fund seeks to provide investors with capital appreciation and/or income generation.

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 |
|--------------------------------------|-------|-------|-------|-------|------|-------|
| Global Equity Fund (Hexavest) | 9.93 | 32.58 | 15.06 | 20.10 | 8.80 | 16.99 |
| MSCI World (Cdn) Index | 14.00 | 36.16 | 15.08 | 18.93 | 4.93 | 17.39 |
| Value added (+) / lost (-) | -4.07 | -3.59 | -0.02 | 1.17 | 3.87 | -0.40 |
| Quartile ranking ⁽¹⁾ | 4th | 3rd | 2nd | 2nd | 1st | 2nd |

Short-term performance analysis

- In 2016, the Fund outperformed its benchmark and ranks in the first quartile within the Global Equity peer group.
- The portfolio added value from multiple sources in 2016.
- Security selection was the primary driver of added value particularly within the U.S. Health Care and Financials sectors and the Canadian Materials sector as several diversified pharmaceutical companies, major banks and gold companies were among the top contributors.
- Market returns were the secondary driver of added value primarily due to underweight allocations to Europe, the Middle East and North America as well as positions in Asia throughout 2016.
- Additionally, sector allocation added value primarily due to variable positions in the Materials and Financials sectors throughout the year and an overweight allocation to the outperforming Telecommunication and Utilities sectors.
- Currency strategies produced positive results as positions in the Japanese Yen and US dollar contributed to performance.
- Over the course of the year, the Financials sector has moved from being the largest underweight allocation to an overweight allocation. Meanwhile, the portfolio remains defensively positioned with an overweight exposure to defensive sectors such as Telecommunications and Utilities and an underweight exposure to cyclical sectors including Industrials, Information Technology and Energy. Regionally, the Manager maintains a large underweight position in the U.S. market and was also underweight to Canada and the U.K.; the portfolio's largest overweight allocation remains to Italy and Japan. In currency strategies, the portfolio maintains a large overweight to the U.S. dollar and a large underweight to the Euro.

Long-term performance analysis

- The Fund outperformed its benchmark in two of the past five years and produced a return that was in line with its benchmark on a five-year annualized basis. This long term performance ranks it around median within the Global Equity peer group.
- Market and currency strategies were positive more often than not and were the main driver of added value on a five-year annualized basis.
- Sector allocation also produced positive results over the long term.
- Stock selection produced slightly negative results over the long term.
- The Fund has consistently maintained its macro core investment style and added value from various sources under different market conditions.

Significant corporate events

Corporate

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

Fund specific

- In March 2016, Hexavest announced that Frederic Imeault, Vice President and Lead Portfolio Manager for Asia Pacific markets, would retire in 2017. Etienne Dumais, Portfolio Manager within the Asia Pacific team, has assumed the Lead Portfolio Manager role for this region and a second member will be added to complete the two-member team structure.

IMS commentary

- The investment team relies primarily on a fundamentally driven top-down investment approach. Portfolio managers determine which regions, countries, currencies, sectors and industries to favour based on their analysis of the macroeconomic environment, valuation factors and investor sentiment (which often results in a contrarian view and value bias).
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- The Fund has produced a return that was in line with its benchmark over the long term and ranks near median within the Global Equity peer group. This long term performance has been in line with its macro investment style and contrarian approach and also largely met our expectations given the strong market environment.
- Solid performance can be attributed to multiple sources of added value including market and currency strategies as well as sector and industry allocation, in line with the Manager's stated objective.
- The investment team has been very stable and the announced retirement of Mr. Imeault in 2016 was the first major change in recent years. IMS has met with Mr. Dumais who has worked alongside Mr. Imeault for four years within the Asia Pacific team. A new analyst has been added to join Mr. Dumais on the team. We are confident that Hexavest's team-based investment approach and the stable and deep-resourced team structure will ensure that this team change will not have a negative impact on the day-to-day management of the Fund.

Conclusion:

- Due to the fact that 1) the Fund has produced a return that was in line with its benchmark, all the while remaining within its stated investment philosophy and style, 2) outperformance has been due to multiple sources of added value and 3) we are confident that the team change in 2016 will not have a negative impact on the day-to-day management activities of the Fund, IMS continues to rate this Fund In Good Standing.

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

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