



**Hedged Synthetic International Equity Index Fund (TDAM)**  
**Manulife TDAM Hedged Synthetic International Equity Index Fund**  
**TD Asset Management**

**31-12-2016**

**Lead manager(s):** Dino Bourdos **Investment style:** Index

**Investment objective:** The investment objective of the fund is, over the long term, to track the performance of the fund in relation to the performance of the MSCI EAFE Index or any other index, as determined by the fund hedged into Canadian dollars.

**Last meeting date:** November 2016 **Next estimated meeting date:** Q4 2017

**Current rating:** **IN GOOD STANDING**

**Annual fund performance (%)**

	2012	2013	2014	2015	2016	5 yrs
<b>Hedged Synthetic International Equity Index Fund (TDAM)</b>	16.94	26.77	5.90	4.05	5.24	11.44
MSCI EAFE Hedged Index ND (\$CA) *	17.31	26.93	5.92	5.33	5.83	11.08
Value added (+) / lost (-)	-0.37	-0.16	-0.02	-1.28	-0.59	0.37
Quartile ranking <sup>(1)</sup>	3rd	3rd	2nd	4th	1st	4th

\* returns prior to 2016 are based on MSCI EAFE ND (LC)

**Short-term performance analysis**

- The Fund had a tracking error within its short term tracking error guideline of +/- 100 basis points versus its benchmark in calendar 2016. The synthetic hedged approach that Fund management had followed to replicating an index can introduce greater short term tracking error than more traditional full replication strategies. There are no concerns.

**Long-term performance analysis**

- The Fund has respected its long-term tracking error guideline of +/- 65 basis points versus its benchmark over five years.
- Longer term results reflect the large variance in performance in 2015, which is explained by the difference in coverage between the index futures used in the Fund and those countries in the benchmark. With the previous method, the Fund had about 94% coverage of the benchmark and those countries outside that coverage had a significant impact on the benchmark return in 2015. We expect the new method, which was put into effect June 30, 2016, to have a tighter tracking error since it is based on a full replication of the index.

## Significant corporate events

### Corporate

- Bruce Cooper was appointed Chief Investment Officer in Q1 2015 following the retirement of Satish Rai. Mr. Cooper has been with TDAM for 20 years.
- Bruce Cooper succeeded Tim Wiggan as Chief Executive Officer effective November 1, 2016, following Mr. Wiggan's return to TD Securities. Mr. Cooper has retained his role as CIO while some responsibilities have been reassigned.

### Fund specific

- Vishal Bhatia, VP and Director and a member of the quantitative investment management team at TDAM, left the firm in April 2016. Jonathan Lau continues to lead this strategy with Jimmy Xu as back-up PM and Adnann Syed as Portfolio Specialist. Mr. Vhatia's responsibilities have been redistributed among the current team members on the Quantitative and Passive Equity team. TDAM has significant expertise in this area and we have no serious concerns with this change.
- TDAM announced a change to the Investment Objective and Investment Guidelines for the TD Emerald Hedged Synthetic International Equity Pooled Fund Trust effective June 30, 2016. Until now, the Fund invested in market futures to replicate the MSCI EAFE index; going forward, it will have exposure primarily through a full representation of the equity securities in the index. The benchmark is changing from the MSCI EAFE ND (LC) to the MSCI EAFE Hedged Index ND (CAD). There is no change to the currency exposure of the Fund's returns.

## IMS commentary

- The Hedged Synthetic International Equity Index Fund (TDAM) is an international equity mandate that aims to closely replicate the returns of the MSCI EAFE Index. The fund intends to achieve its object.
- IMS has met with the portfolio manager and we are satisfied that the operational change to this Fund will produce essentially the same series of returns as the previous method. Since the Fund will cover a larger portion of the index with this new method, the tracking error is expected to be lower going forward.
- As a passive mandate, the Fund's peer ranking is more a reflection of the benchmark returns than the Fund's performance, particularly since these returns reflect local currency performance. This manager's success is judged on minimizing the Fund's tracking error relative to the index, which it has accomplished.

### Conclusion:

- Due to the fact that the Fund has respected its tracking error guidelines over the long term, IMS continues to rate this Fund In Good Standing.

<sup>(1)</sup> Quartile rankings are based on the underlying fund's returns.

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