



Canadian Small-Cap Equity Fund (BMO Asset Management)
Manulife BMO AM Canadian Small-Cap Equity Fund
BMO Asset Management Inc.

December 31, 2016

Lead manager(s): Tyler Hewlett **Investment style:** Small Cap

Investment objective: To invest in a portfolio of small-cap growth companies with significant capital appreciation potential.

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
Canadian Small-Cap Equity Fund (BMO Asset Management)	12.45	39.67	14.91	-2.93	12.89	14.61
BMO Nesbitt Burns Small Cap Unweighted CA	2.46	7.76	-0.09	-13.75	35.39	5.19
Value added (+) / lost (-)	9.99	31.91	15.00	10.83	-22.50	9.42
Quartile ranking ⁽¹⁾	2nd	1st	1st	2nd	4th	1st

Short-term performance analysis

- The Fund underperformed significantly over 2016 and ranks in the fourth quartile relative to its category peers. This underperformance has mainly been driven by a very strong rally in the material sector, focusing on gold stocks.
- The portfolio manager continues to focus on its quality growth approach. Besides materials, more defensive sectors have been the better performing areas of the market during the year. Overall stock selection and selection within the materials sector was by far the largest performance detractor with additional underperformance stemming from security selection within the Industrials and Energy sectors.
- The Fund's largest absolute sector weightings are in the Industrials and Consumer Discretionary sectors
- The investment manager feels that market sentiment continues to shift between growth stocks and interest sensitive/defensive/gold stocks and that this will likely create opportunities to own companies that are properly executing.

Long-term performance analysis

- The Fund has outperformed its benchmark significantly and ranks in its peer group's first quartile over the five-year annualized period.
- The manager looks for quality small cap names and tends to be underweight the resource sectors, as they are seen as lower quality and more speculative. This could lead to periods of underperformance when these stocks rally, and conversely outperformance when they decline. The 2013 and 2015 periods listed were years when the small-cap materials sector strongly lagged the broader market.
- The investment manager focuses on companies with less reliance on outside capital to fund their growth plans

Significant corporate events

Corporate

- June 2016 - Rajiv Silgado announced his retirement as of August 1, 2016, from his role as Co-CEO of BMO Global Asset Management ('GAM'); Mr. Silgado had direct accountability for the Canadian operation of BMO GAM. This announcement follows the departure of Barry McInerney, Co-CEO, BMO GAM, who had been accountable for U.S. operations, in May of 2016 to pursue an external opportunity. BMO GAM has announced that Richard Wilson has been appointed and will operate as sole CEO of BMO GAM, and will be responsible for strategic direction, profitability and investment results globally. Mr. Wilson's appointment also includes the title and role of Chief Investment Officer ('CIO').
- May 2016 - Barry McInerney, Co-CEO, BMO Global Asset Management, left BMO Financial Group to pursue an external opportunity. Rajiv Silgado continued in his role as Co-CEO of BMO Global Asset Management and had direct accountability for Canadian operations. On an interim basis Phil Enochs, Managing Director & Head, Relationship Management, BMO Global Asset Management U.S. will lead BMO's U.S. business.

Fund specific

- Effective March 31, 2015, the benchmark for the Canadian Small-Cap Equity Fund (BMO Asset Management) changed to the S&P/TSX Small Cap Index. The Fund previously used the BMO Capital Markets Small Cap Index (Blended).

IMS commentary

- The Canadian Small-Cap Equity Fund (BMO Asset Management) is a bottom-up, core Canadian equity mandate that invests on the belief that a diversified portfolio of well-managed, smaller companies will, over long time periods, provide superior returns.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has added relative value over the longer term and ranks in the higher quartiles. Outperformance has been in part due to positive security selection; the manager's stated the primary source of added value.
- There are no major concerns in regards to recent underperformance. The magnitude of the recent underperformance is disappointing. However, the Fund is expected to underperform in time periods where the resource sectors significantly rally, due to Fund's management's emphasis on quality growth companies. There are no concerns; long-term performance remains very strong.

Conclusion:

- Due to the fact that 1) that despite near-term underperformance the Fund has generated strong results relative to its benchmark over the long term, all the while remaining within its stated investment philosophy and style, 2) outperformance has been in part a factor of positive stock selection, and 3) the Fund ranks in the higher quartiles when compared to its peer group, IMS continues to rate this Fund In Good Standing.

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

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