



**Manulife FGP Small Cap Canadian Equity Fund**  
**Foyston, Gordon & Payne Inc.**

**December 31, 2016**

<b>Lead manager(s):</b>	Brian Pilsworth	<b>Investment style:</b>	Value
<b>Investment objective:</b>	The FGP Small Cap Canadian Equity Fund aims to generate an attractive total investment return through long-term capital growth as well as dividend and other income. To achieve this, the Fund will invest in a diversified mix of Canadian equity securities.		
<b>Last meeting date:</b>	Q4 2016	<b>Next estimated meeting date:</b>	Q4 2017
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

**Annual fund performance (%)**

	2012	2013	2014	2015	2016	5 yrs
<b>Manulife FGP Small Cap Canadian Equity Fund</b>	15.99	31.04	6.84	-13.86	22.61	11.39
BMO Nesbitt Burns Small Cap Unweighted CA	2.46	7.76	-0.09	-13.75	35.39	5.19
Value added (+) / lost (-)	13.54	23.28	6.93	-0.11	-12.78	6.20
Quartile ranking <sup>(1)</sup>	1st	2nd	2nd	4th	2nd	3rd

**Short-term performance analysis**

- The Fund significantly underperformed its benchmark over calendar 2016, however, is ranked 2<sup>nd</sup> quartile against peers.
- Benchmark underperformance has been heavily determined by a strong rally in the material sector, focusing on gold stocks, which this value manager does not hold.
- The portfolio manager continues to focus on the core tenets of quality and value, avoiding lower-quality companies, particularly in the natural resource sectors that have had short-term share price increases but continue to face serious fundamental challenges. Hence the Fund has an absence of gold companies in which the investment manager sees as lower quality.
- Security selection in Financials and Industrials also detracted but to a much lesser degree than Materials
- In the Energy sector, the investment manager favours owning oil services companies which are less dependent on finding and replacing their reserves than are the pure producers.
- The preference for the investment manager when looking at mining companies is for ones which produce commodities with practical end uses and which are consumable. These companies are less likely to be subject to extreme momentum as may be the case with gold and silver mining companies.
- The Fund maintains an overweight position in the industrials and consumer discretionary sectors.

**Long-term performance analysis**

- The Fund has outperformed its benchmark significantly and is the third quartile versus peers over a 5-year annualized period.
- The manager looks for quality small cap names and tends to be underweight resource names as they are seen as having fundamental challenges. This could cause periods of underperformance when these stocks rally, and conversely, outperformance when they decline. The 2012 and 2013 annual periods listed were years when the small-cap materials sector strongly lagged the broader market.

## Significant corporate events

### Corporate

- Effective January 1, 2015, Bryan Pilsworth, Vice-President and Portfolio Manager, Canadian Equities, will become President of FGP, taking over from Jim Houston, who will be leaving the firm as of December 31, 2014, for personal reasons.
- In addition to overseeing the firm, Bryan will continue his role as Portfolio Manager on the Manulife FGP Small-Cap Value Fund.

### Fund specific

- There are no significant events over the past three years.

## IMS commentary

- The FGP Small Cap Canadian Equity Fund (the "Fund") aims to generate an attractive total investment return through long-term capital growth as well as dividend and other income. To achieve this, the Fund will invest in a diversified mix of Canadian equity securities.
- FGP believes that consistent investment returns are achieved by taking a long-term, value-oriented approach to investments based upon detailed, fundamental research and analysis. When considering investments, management's primary concern is to select those that are priced conservatively. Management also considers the features of the security, the underlying financial strength of the issuer, its position within its industry and its assessment of the quality of corporate management.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- There are no significant concerns with recent underperformance. Fund management's high quality, value approach is not expected to hold the resource companies that have significantly outperformed in 2016. Longer-term performance remains strong.

### Conclusion:

- The Fund has stayed true to its style and philosophy and performance relative to its benchmark has been strong with the exception of 2016. However, the quality characteristics the manager seeks are part of its process and it is understood that certain stocks, often from the resource sector, would not qualify for inclusion into the portfolio. IMS rates this Fund In Good Standing.

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

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