

Global Absolute Return Strategies Fund (SLI)
Manulife SLI Global Absolute Return Strategies Fund
Standard Life Investments Ltd.

December 31, 2016

Lead manager(s):	Guy Stern	Investment style:	Global Absolute Return Strategies
Investment objective:	To provide positive investment returns in all market conditions over the medium to long term. The fund is actively managed with a target level of return over rolling three-year periods equivalent to cash plus five percent a year, gross of fees.		
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
Global Absolute Return Strategies Fund (SLI)	9.38	8.48	7.41	4.45	-1.42	5.59
6 month CDOR (Benchmark)	1.45	1.39	1.37	0.96	0.97	1.23
6 month CDOR + 5% (Long-term Objective)	6.45	6.39	6.37	5.96	5.97	6.23
Value added (+) / lost (-)	7.92	7.09	6.04	3.49	-2.39	4.37

Short-term performance analysis

- The Fund underperformed its benchmark in 2016 and posted its first negative calendar year return since 2009.
- Although the mandate has an explicit absolute return objective over rolling three-year periods, it may suffer from bouts of underperformance – and even negative results – along the way, as it attempts to meet its objective.
- Strategy allocation decisions and individual security selection were both sources of underperformance for the full year.
- The Fund's performance was negative in the first half of 2016, with much of that underperformance coming in the first quarter. In Q1, long exposure to declining Japanese and European equities, short US duration positioning as Treasury yields fell, and being on the wrong side (at least in the short-term) of relative value trades such as 'US equity banks versus consumer staples', all contributed to the Fund dropping well into negative territory.
- Performance turned around in the second half of the year – with gains posted in both Q3 and Q4 – though it did not offset earlier losses. The fourth quarter's rebound was in large part driven by some of the same strategies that detracted meaningfully in the first quarter, including the 'US equity banks vs consumer staples' pair trade and the European equities strategy.
- For the full year 2016, relative value equity strategies and currency strategies on the whole were key detractors from results. The greatest negative impact from an individual strategy perspective came from being short US duration, favouring US tech stocks over US small caps, and favouring US large caps over US small caps.
- The investment team's current formative views include:
 - Positive momentum (cyclical upswing) behind global growth, which is being expressed in the portfolio through European equity, high yield credit, and US equity exposures;
 - More apparent policy divergence, which is being captured in relative pairings favoring Australian over US rates, and UK vs German and French rates;
 - Relative value becoming increasingly important across all asset classes, providing opportunities to exploit differences within and between markets, such as continuing to favour US banks over consumer staples and EM equities overall vs Brazilian stocks;
 - And the dominance of geopolitical concerns, including the growth friendly/unfriendly balance of the US administration, forthcoming elections in Europe, and Brexit negotiations, which are considerations behind currency pairings favouring the US dollar over the Euro and the Japanese Yen over the Korean Won.

Long-term performance analysis

- The Fund outperformed its cash benchmark in four of the past five years, and added value over this benchmark on a five-year annualized basis while keeping volatility on the low end of its target range.
- The Fund's negative results in the middle half of 2015 and first half of 2016 have weighed on longer-term results relative to its cash + 5% objective.
- Performance over 3-year rolling return periods (the measurement period that aligns with the mandate's objective) had consistently outpaced the cash + 5% objective over the long-run until early 2016, from which point onward the Fund has trailed.
- The five-year annualized return currently falls short of the stated target return objective.
- While the Fund has more recently lagged from a performance standpoint, it has consistently met its volatility objectives over the long-run, and its target return often.
- Historically, directional and relative strategies, along with security selection, have been positive contributors to results.

Significant corporate events

Corporate

- In September 2014, Standard Life PLC announced the sale of its Canadian operations to Manulife Financial Corp. This transaction was closed on January 30, 2015. This Fund continues to be managed based out of Standard Life's UK operations, and as such this sale had no impact on the GARS Fund.

Fund specific

- In May 2016, Standard Life Investments announced that Sebastian Mackay, an investment director within the firm's Multi-Asset Investing team, would resign and be leaving the company. Mackay served as a manager of the Absolute Return Global Bond Strategies ('ARGBS') fund since 2013 and a manager of the Global Absolute Return Strategies (GARS) fund since 2014. Adam Skerry replaced Mackay on the ARGBS fund, but a decision was made that a replacement would not be named on the GARS fund.
- In July 2013, Standard Life Investments Limited announced that Guy Stern has been appointed to the Board of Standard Life Investments Limited as Head of Multi-Asset & Macro Investing, reporting to Rod Paris, Chief Investment Officer. Mr. Stern was responsible for the day-to-day running of SLI's multi-asset investments since 2008 and has 30 years of experience in the industry. This appointment follows the departure of Euan Munro, who has left to pursue other opportunities.

IMS commentary

- The Manulife SLI Global Absolute Return Strategies Fund ('GARS') seeks to meet a performance objective of Cash + 5% p.a., gross of fees, within a volatility range of 4% to 8% (1/3rd to 1/2 of equity volatility) over a medium-term (3-year rolling periods) horizon. As an absolute return mandate, GARS is unconstrained by traditional asset choices and time horizons and leverages a broad range of investment opportunities. By constructing a portfolio of 25 - 35 high conviction market based investment strategies across 4 main categories – market, directional, relative, and alpha strategies – GARS seeks to benefit from market inefficiencies.
- SLI's Multi-Asset team has seen several senior individuals depart in recent years for competitor firms seeking to establish similar multi-asset investment teams and offerings. Most recently this has included Sebastian Mackay who has joined David Millar and other former SLI Multi-Asset team members at Invesco. In July 2013 Euan Munro departed SLI to take on the leadership role with Aviva's multi asset team.
- While the departure of team members that have contributed to the Fund's previous success is somewhat unsettling, the continuing depth of resources and experience on SLI's Multi-Asset team has given us comfort that these personnel changes should not have a materially negative impact on the day to day portfolio management activities of the Fund. The team has indeed grown meaningfully in recent years alongside the growth in assets, with team size increasing from 26 members in 2012 to 62 in 2016.
- Moreover, Guy Stern has been an integral part of the senior portfolio management team for many years, and we are of the opinion that he is a logical successor to Euan Munro. We therefore maintain that his appointment has ensured minimal disruption to the daily portfolio management activities.
- GARS has a strong track-record dating back to its 2006 inception (the Canadian vehicle dates back to 2011) that has largely met its stated risk/return objective. Short-term underperformance is being monitored closely; IMS does not believe that it stems from a deviation from the manager's stated investment philosophy and style and significant concerns do not yet exist. Indeed, a rebound in recent performance, partly on the back of previously negatively impactful strategies, has been a positive development. Nonetheless, performance remains an area that IMS continues to monitor closely.

Conclusion:

- Due to the fact that 1) the Fund has remained within its stated investment philosophy and style, 2) the Fund's longer-term track record has demonstrated management's ability to consistently operate within its target volatility range while often meeting the targeted return profile, and 3) we believe that the investment team turnover has not materially hindered the day-to-day management of the Fund, IMS continues to rate this Fund In Good Standing.

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