



International Equity Fund (Foyston, Gordon & Payne)
Manulife FGP International Equity Fund
Foyston, Gordon & Payne Inc.

December 31, 2016

Lead manager(s):	Stephen Mitchell	Investment style:	Value
Investment objective:	To generate an attractive total investment return through long-term capital growth as well as dividend and other income by investing primarily in a diversified mix of non-North American equity securities.		
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
International Equity Fund (Foyston, Gordon & Payne)	13.80	23.69	3.82	14.18	-1.93	10.35
MSCI EAFE Index (Net Dividends Reinvested - \$Cdn) -- MLI	14.72	31.02	3.67	18.96	-2.49	12.57
MFS MB International Equity						
Value added (+) / lost (-)	-0.92	-7.33	0.15	-4.78	0.56	-2.22
Quartile ranking ⁽¹⁾	4th	4th	3rd	4th	3rd	4th

Short-term performance analysis

- The Fund outperformed in 2016. The Fund is ranked the third quartile versus peers over the year.
- Over 2016 stock selection in Consumer Discretionary, Financials and Industrials drove outperformance relative to the benchmark, though absolute performance was negative in the year.
- The Fund has historically maintained an exposure to emerging markets that is outside of the benchmark index.
- Based on MSCI EAFE style indices, value stocks outperformed growth equities on average over a 1-year period. Given the Fund's value investment bias, its style was a tailwind in regards to performance.
- Under new portfolio manager Stephen Mitchell the portfolio was repositioned during the fourth quarter with a view to better its risk/return profile by selling several financial company stocks in Europe and Asia due to these companies' higher level of systemic risk. The manager reduced several financial names feeling that European banks did not raise sufficient capital after the financial crisis and the interrelatedness of banks may produce heightened systemic risk.
- The focus remains on investing in high-quality companies that can be acquired at attractive prices. However, the investment manager feels that these opportunities are becoming increasingly scarce.

Long-term performance analysis

- The Fund has underperformed its benchmark index over a 5-year annualized term and is ranked 4th quartile versus peers.
- Overall absolute calendar returns have been solid but have not been able to keep pace versus benchmark or peers. Only performance since September of 2016 belongs to the current management team.
- Based on MSCI EAFE style indices growth stocks and value stocks have performed in-line on average over a 5-year period. Given the Fund's value investment bias, its style had a headwind impact on long-term performance.

Significant corporate events

Corporate

- In December 2014, Foyston, Gordon & Payne Inc. announced that the President, Jim Houston, had left the firm. Bryan Pilsworth, Vice-President and Portfolio Manager, Canadian Equities assumed Mr. Houston's role both as President and as Secretary of FGP's Board of Directors.

Fund specific

- Foyston, Gordon & Payne Inc. ("FGP") announced that Stephen Mitchell has joined the firm as at September 7, 2016, assuming portfolio management responsibility for FGP's global and international equity mandates. Mr. Mitchell replaces Andrew Fernow who departed the firm effective August 30, 2016 to pursue other interests.
- In 2015 Dave Chan joined the firm as a Senior Research Analyst on the foreign equities team. Mr. Chan has 15 years of experience and past experience in value investing. He is focusing on the Industrials, Utilities and Telecom sectors.

IMS commentary

- The International Equity Fund (FGP) employs a bottom-up, value-oriented investment approach based upon detailed, fundamental research. When considering investments, their primary concern is to select quality companies that are priced conservatively. On average, equities in their portfolio will hold below market averages on a P/E, P/CF and market-to-book value basis while paying out an above average dividend yield.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund underperformed its benchmark over the long term and ranked in the lower quartiles. However, this can be in large part attributed to particularly weak years in 2013 and 2015, periods in which Emerging Markets broadly underperformed the stronger performing developed markets. Emerging Markets are not held within the Fund's benchmark. This performance track record also belonged to the previous fund management team.
- Security selection, the manager's stated primary source of excess returns, was positive over the long term.
- The change in management and the appointment of Stephen Mitchell as lead manager requires close monitoring. Mr. Mitchell brings over 20 years of investment experience and a strong performance track record managing in a similar value style from Burgundy. There are no serious concerns with his appointment, however close monitoring is required to ascertain how Mr. Mitchell's appointment will impact Fund positioning, process and performance. IMS met with the new management team in the fourth quarter and is positive in regards to the experience and expertise that Mr. Mitchell brings to the mandate.

Conclusion:

- Due to the fact that the Fund has performed in line with expectations over the long term and maintained its stated investment philosophy with stock selection as the main driver of performance, and the new manager brings with him a strong experience base, and a strong historical performance track record while managing in a similar, value approach, IMS continues to rate this Fund In Good Standing.

⁽¹⁾ The source of benchmark returns are utilizing the Bank of Canada end of day for currency exchange. This change may result in minor differences from otherwise listed benchmark returns.

⁽²⁾ Quartile rankings are based on the underlying fund's returns.

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