

## Manulife Retirement Date 2040 Fund Manulife Asset Management

December 31, 2016

Lead manager(s): Manulife Asset Management      Investment style: Target Date

Investment objective: The Fund is managed to provide a balance between current income and growth of capital, with emphasis on growth of capital. This fund is diversified by asset class and investment style with the objective of achieving superior risk-adjusted returns. The Fund's equity allocation will decline over time, to approximately 35% in equities in the year 2040.

Last meeting date: Q1 2017      Next estimated meeting date: Q3 2017

Current rating: **INCREASED SCRUTINY**

### Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
<b>Manulife Retirement Date 2040 Fund</b>	11.56	20.66	10.94	7.50	8.53	11.74
Blend: MLI Retirement Date 2040	9.09	17.76	11.02	6.18	9.55	10.65
Value added (+) / lost (-)	2.47	2.90	-0.08	1.32	-1.02	1.10
Quartile ranking <sup>(1)</sup>	1st	2nd	3rd	2nd	2nd	2nd
Benchmark:	41% S&P/TSX Composite + 18.5% S&P 500 TR CAD + 22.5% MSCI EAFE TR CAD + 9% FTSE TMX Universe Bond TR + 9% Barclays Capital Multiverse TR CAD					

### Short-term performance analysis

- The Fund has underperformed its benchmark in 2016 and ranks in the second quartile relative to its peers.
- Asset allocation decisions detracted most from overall relative performance, while manager selection also weighed on results.
- The Fund's underweight allocation to Canadian Large Cap stocks was the key source of underperformance, as domestic large caps outpaced large caps from other regions in 2016. Further, three of the four underlying active managers used for this exposure were unable to keep pace with the S&P/TSX Composite Index over the period.
- The benefits of the Fund's Canadian SMID Cap exposure were largely offset by underperformance of the two underlying sub-funds run by FGP and MAM. Both mandates lacked the high-flying junior silver and gold producers that largely drove the strong gains posted by the small cap index. The MAM mandate's relative results were also hindered by its greater mid-cap exposure, as well as a cash drag from a defensive positioning decision in the first half of the year.
- Management is favouring U.S. over Canadian stocks within the equity portion of the portfolio, largely due to a preference for broader sector exposures and lower volatility, in addition to concerns regarding long-term structural issues in the commodity space. That said, the team's view on Canada is becoming less bearish based on return expectations.
- Within Fixed Income, management is favouring shorter duration issues such as Mortgages, as well as multi-sector bonds given the exposure to carry and the flexibility of the mandate in the context of a volatility within the fixed income space.

### Long-term performance analysis

- The Fund has outperformed its benchmark in three of the past five calendar years and added value on a five-year annualized basis. This long-term performance ranks in the second quartile when compared to its peers.
- Over longer periods, strategic asset allocation decisions have been the main driver of returns, with manager selection contributing to a lesser degree in the Retirement Date portfolios.

## Significant corporate events

### Corporate

- In September of 2014, Manulife Financial Corp. announced the acquisition of Standard Life PLC's Canadian operations. This transaction was closed on January 30, 2015, and the company is now part of Manulife.

### Fund specific

- Effective May 13, 2016, portfolio manager Glen Martin departed from the management of this mandate. He subsequently moved into a new role within MAM and is no longer a member of the Portfolio Solutions Group (PSG) that manages the target date and asset allocation portfolios.
- In December 2016, MAM announced the addition of Jamie Robertson as Senior Portfolio Manager for PSG. In this role, he is responsible for overseeing all aspects of MAM's Canadian Asset Allocation franchise, including portfolio management, research and development, and supporting product development, business development, and trading.

## IMS commentary

- Manulife's Retirement Date Funds are strategically oriented multi-asset portfolios with static risk profiles along a glide path. This series of nine funds is available with dates in five-year intervals (2020 – 2060) and for investors who are already retired or approaching retirement, the Manulife Retirement Income Fund is available. The equity component of the funds decreases over time, leading to a more conservative asset mix as the funds approach their maturity date. The funds are managed by MAM's Portfolio Solutions Group.
- Following the team turnover in 2016, IMS determined that closer monitoring was warranted – mainly to ensure an orderly transition of Glen Martin's responsibilities and to gain the necessary level of familiarity and conviction in a forthcoming successor. As such, IMS placed all Canadian mandates managed by PSG under Increased Scrutiny.
- With respect to Glen Martin's departure from the PSG team in Q2 2016, IMS took some comfort in a few notable mitigating factors, including: (i) the deep team of experienced investment professionals that remained in place at PSG, (ii) the fact that PSG has generally espoused a team approach to portfolio management rather than an overreliance on a single contributor, and (iii) that Mr. Martin remains an available resource within MAM which increased the likelihood of a smooth transition.
- The addition of an experienced senior investment professional (Jamie Robertson) to the Toronto-based members of PSG is a positive development following the departures of Glen Martin and Cordell Tanny. With Robertson now in place, IMS will be looking to establish a view on his day-to-day role and contributions to the team through a series of due diligence meetings. This will involve monitoring for tangible evidence that expectations set out for him are being met over a ramp-up period. Over this timeframe, the Canadian mandates managed by PSG will retain an Increased Scrutiny rating.
- There are no major concerns with the Fund's performance.

### Conclusion:

- The change in leadership of the Canadian-based members of PSG introduces a degree of near-term uncertainty for the team. Over this ramp-up period for the newest addition to PSG, IMS will be monitoring for tangible evidence that expectations set out for him are being met. The Fund remains under Increased Scrutiny.

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

This report card is provided by Manulife as a tool to assist you in the governance of your retirement plan.

Manulife makes no representation or warranty, express or implied, as to the accuracy or completeness of the information provided. Though Manulife has taken all reasonable measures to provide you with relevant information and professional opinions, based on reliable sources\*, it reserves the right to correct any error or omission.

The opinion of Manulife expressed in this report card shall not be the only factor to consider for decisions related to your plan's portfolio. Manulife is not responsible for the outcome of decisions made based on the information and opinion provided in the report card.

\* Sources may include, but are not limited to, Mercer MPA, Morningstar, Principia and Thomson Baseline

All rights reserved © 2016 The Manufacturers Life Insurance Company

The Manufacturers Life Insurance Company