



Mid-Term Liability Government Bond Fund (SLI)
Manulife Asset Management Mid-Term Liability Government Bond Fund
Manulife Asset Management Ltd.

December 31, 2016

Lead manager(s): Claude Turcot **Investment style:** LDI

Investment objective: The fundamental investment objective of the Fund is to provide returns that closely track the returns of the SLI Mid-Term Liability Provincial Bond Benchmark by investing primarily in Canadian dollar denominated provincial and provincially guaranteed fixed income securities.

Last meeting date: Q1 2016 **Next estimated meeting date:** Q1 2017

Current rating: IN GOOD STANDING

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Mid-Term Liability Government Bond Fund (SLI)	N/A	N/A	16.19	4.11	2.10	N/A
SLI Mid-Term Liability Prov Bond BM	N/A	N/A	16.01	4.18	2.16	N/A
Value added (+) / lost (-)	N/A	N/A	0.18	-0.07	-0.06	N/A
Quartile ranking ⁽¹⁾	N/A	N/A	1st	1st	3rd	N/A

Short-term performance analysis

- The Fund marginally underperformed its benchmark in 2016 and ranks in the third quartile within the Canadian Bond peer group. The primary objective of the Fund is to closely track its benchmark, rather than outperform peers however.
- Results have continued to closely track that of the Fund's benchmark, as per its stated investment objective.

Long-term performance analysis

- The Fund has produced returns that have been in-line with the benchmark over the last years, in-line with its objective. There have been no concerns with Fund performance since inception.

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

- In December 2015, Manulife Asset Management ('MAM') announced that changes would be made to the MAM Liability Driven Investment Funds' benchmarks. Effective January 15, 2016, the custom benchmarks have been updated to reflect the use of the new mortality table (CPM2014), promulgated by the Actuarial Standards Board for the Canadian Institute of Actuaries ('CIA') which will result in an increase to the duration of the funds benchmarks.

IMS commentary

- The Fund allows Canadian pension plans that must meet mid-term future financial obligations to decrease interest rate risk, while exposing them to provincial credit risk in order to enhance returns over the long term. To achieve its investment objectives, the Fund will match as closely as possible the characteristics of the Fund benchmark which is a notional portfolio of fixed income securities based on a Target Cash Flows Structure (TCFS) of a typical mature Canadian pension plan where 75% of the liability cash flows of such plan are associated with retirees.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has produced returns that were in line with its benchmark, which is in line with expectations.
- We have no concerns with the changes to the Fund's custom benchmark, which is designed using proprietary methodologies which take into account underlying demographic profiles, mortality rates and target cash-flow structures. As it is expected that the new mortality table will also be applied to the valuation of the plan's liabilities, resulting in a similar lengthening in duration, there should be no need for reallocations of plan assets between funds as a result of these changes.

Conclusion:

- Due to the fact that the Fund has generally performed in line with expectations and its benchmark, IMS continues to rate this Fund In Good Standing.

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

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