



## Manulife Templeton Global Bond Fund Franklin Templeton Investments

December 31, 2016

<b>Lead manager(s):</b>	Michael Hasenstab, Sonai Desai	<b>Investment style:</b>	Active
<b>Investment objective:</b>	High current income with capital appreciation by investing primarily in fixed-income securities and preferred shares issued around the world.		
<b>Last meeting date:</b>	February 2016	<b>Next estimated meeting date:</b>	Q1 2017
<b>Current rating:</b>	<b>IN GOOD STANDING</b>		

### Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
<b>Manulife Templeton Global Bond Fund</b>	9.99	5.00	5.40	8.47	0.17	5.75
MSCI World Ex Canada - JP Morgan Global Government Bond Index	-0.96	1.91	9.75	16.81	-1.94	4.88
Value added (+) / lost (-)	10.95	3.09	-4.34	-8.34	2.11	0.87
Quartile ranking <sup>(1)</sup>	1st	1st	4th	1st	4th	1st

### Short-term performance analysis

- The Fund had largely flat absolute returns and outperformed the benchmark across 2016 ranking in the fourth quartile relative to its peers.
- The Fund also outperformed in the fourth quarter of the year with returns being driven primarily by interest-rate strategies. The Fund's currency positioning detracted value, with the Fund's negative duration positioning in US Treasury Bonds adding value.
- The Fund's currency positioning also detracted across the entire year particularly positions in Europe and positions in the US dollar. The fund maintained a defensive approach regarding interest rates in developed and emerging markets. Consequently, contributions from duration exposures were limited.
- The portfolio manager believes that an unconstrained global strategy is the most effective way to position for a rising-rate environment because it provides access to the full global opportunity set. As such, the portfolio's duration is near zero and they are taking negative duration exposure to US Treasuries which they feel is suitable for current interest rate risks. The portfolio has taken long positions in select emerging-market currencies with attractive longer-term valuations.
- Several currencies continued to depreciate against the US dollar during the short term, while some currencies rebounded and appreciated. The fund's underweight positions to the US dollar and the Japanese yen detracted from relative performance. The portfolio has selectively added to their strongest conviction positions in periods of volatility and believe that global market fundamentals will eventually re-emerge.
- Given the Fund's unique, high tracking error approach that heavily utilizes currency positioning and derivatives to add value and to take materially different positions from the Index, short term results can be expected to deviate significantly from that of the Index at times.

### Long-term performance analysis

- The Fund outperformed its benchmark in three of the past five years and added value on a five-year annualized basis. Longer term performance ranks the fund in the first quartile versus peers.
- Currency positioning drove the majority of the out or underperformance relative to the benchmark over the long term.
- Country and yield curve positioning, followed by sovereign credit, also contributed to the portfolio's long-term performance.
- The Fund's unique, unconstrained approach to global fixed income can result in significant short-term deviations from its global government bond index which can result in alternating periods of first and fourth quartile performance. Longer-term results are a better assessment with fund management focusing on providing long-term strong absolute returns.

## Significant corporate events

### Corporate

- There were no significant corporate events over the past three years.

### Fund specific

- There were no significant fund specific events over the past three years.

## IMS commentary

- The Franklin Templeton Global Bond Team believes that applying a fundamental, research-driven investment approach that focuses on identifying potential sources of high current income worldwide and that seeks to capitalize on duration, currency, and sovereign credit opportunities will provide the best potential for solid risk-adjusted returns. The Fund is managed independently of its benchmark, allowing the portfolio to hold positions the portfolio managers believe will benefit performance. This is a high alpha-seeking strategy that invests globally and may include allocations to both developed and emerging markets, although below investment grade exposure is limited to 25% of total assets.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- Although the Fund has underperformed relative to the benchmark over the long-term, the Fund ranks in the higher quartiles. Overall underperformance has been in part due to currency positions and interest rate strategies, the manager's stated sources of added value. Given the manager's process and philosophy the Fund can substantially deviate from its benchmark over the short-term. The Fund has still provided strong returns over the long-term on both an absolute basis and relative to peers.

### Conclusion:

- Due to the fact that 1) the Fund has ranked well compared to peers over the long term, all the while remaining within its stated investment philosophy and style, 2) performance has been in part a factor of currency and interest positioning, and 3) the team remained stable with strong and capable lead PMs, IMS continues to rate this Fund In Good Standing.

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

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