



## Global REIT Fund (SLMF)

### Manulife MMF Global REIT Unconstrained Equity Fund (SLI)

#### Manulife Asset Management Ltd.

December 31, 2016

Lead manager(s): Svitlana Gubriy Investment style: Global indirect real estate

Investment objective: The Fund's objective is to provide a combination of capital growth and income. The Fund is primarily exposed to real estate investment trusts and securities of companies that participate in global real estate.

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 REIT Fund (SLMF)	N/A	N/A	22.78	19.03	-5.51	N/A
FTSE EPRA/NAREIT Developed (STUI)	N/A	N/A	25.39	18.98	0.47	N/A
Value added (+) / lost (-)	N/A	N/A	-2.61	0.05	-5.98	N/A

### Short-term performance analysis

- In 2016, the Fund produced a negative absolute return which also underperformed its benchmark index.
- Security selection was the main detractor from relative performance, primarily in the Diversified and Residential sectors. The portfolio's holdings in Japanese Developers also detracted significant value.
- On the regional level, the portfolio's allocations to the U.S. (Health Care and Triple Net REITs) and Japanese (Developers) markets were the biggest detractors. Additionally, the portfolio's overweight allocation to the Spanish market and the out-of-benchmark Chinese market and its underweight allocation to the strong-performing Canadian market, detracted value from an asset allocation perspective.
- The Manager started 2016 with the view that interest rates would be normalized and better economic growth would be expected. The portfolio was overweight in sectors and regions that are less sensitive to rising interest rates and underweight in bond-proxy sectors. As the interest rate environment was dominated by the "lower for longer" headwinds in 2016, the portfolio's performance was hurt.
- The Manager continues to maintain its largest allocation to the U.S. market with an optimistic view in the core Office markets and Industrials. The largest overweight allocations are to the Japanese and Spanish markets as the Manager believes that attractive opportunities exist on the bottom-up stock level. The portfolio's largest underweight allocation remains in Hong Kong as they believe the market has peaked. The portfolio is also slightly underweight to the U.K. market.

### Long-term performance analysis

- The Fund has a limited tracked record of long term performance.
- The Fund underperformed its benchmark in two of the past three years and failed to add value on a three-year annualized basis. This underperformance is noted, however the Fund has yet to provide a full track record throughout an entire market cycle from which to fully judge manager performance.

## Significant corporate events

### Corporate

- In September 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. This transaction had no impact on the Fund as it remains sub-advised by the Global Listed Real Estate Team of Standard Life Investment out of their U.K. operations.

### Fund specific

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

## IMS commentary

- The SLMF Global REIT Fund's investment philosophy is based on the belief that long term capital appreciation can be achieved through actively employing a top-down and bottom-up approach to country allocation and individual security selection. The dedicated Global Listed Real Estate Team manages the Fund within Standard Life Investment's global real estate business and their deep understanding of underlying real estate markets and real estate fundamental drivers is embedded in the process. The team combines top-down direct real estate analysis with bottom-up fundamental securities analysis to construct a fully diversified portfolio that they believe can provide attractive total returns, current income and within their risk budget over the Fund's three year investment horizon.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- The Fund has a limited long term track record. On a three-year annualized basis, the Fund failed to add value primarily due to the underperformance in 2016. Given the Fund's investment process of combining the top-down global real estate view with bottom-up security selection, and the broad market that was primarily driven by the "lower for longer" interest rate environment, this near term underperformance is partially in line with their investment style. We have recently discussed the Fund's performance with the Manager, who reiterated that going forward, they will take more consideration of factor risk in the portfolio construction process in order to minimize macro exposures to areas where they don't hold a strong view. There is no major concern, but the magnitude of 2016 underperformance is disappointing and is being monitored closely.

### Conclusion:

- Due to the fact that 1) the Manager has remained within the stated investment philosophy and style, 2) the Fund's near term underperformance is partially in line with their investment style and 3) the Fund's three-year annualized return is largely solid and the Fund provides a reasonable exposure to the global real estate market, IMS continues to rate this Fund In Good Standing.

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