



International Equity Fund (MFS)
Manulife International Equity Fund (MFS)
MFS Investment Management Canada Limited

December 31, 2016

Lead manager(s): Marcus Smith, Daniel Ling, Filipe Benzinho **Investment style:** Core

Investment objective: To provide long-term capital appreciation by investing principally in equities of companies whose operations lie outside of the U.S. and Canada.

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 (MFS)	20.86	26.60	3.97	19.66	-2.35	13.21
MSCI EAFE Index (CAD\$)	15.34	31.81	4.18	18.83	-1.52	13.14
Value added (+) / lost (-)	5.52	-5.21	-0.21	0.83	-0.83	0.07
Quartile ranking ⁽¹⁾	1st	3rd	3rd	3rd	3rd	2nd

Short-term performance analysis

- In 2016, the Fund slightly underperformed its benchmark and ranks in the third quartile relative to its peers.
- Sector allocation was the main detractor from relative performance primarily due to an underweight position in the outperforming Energy sector and overweight positions in the underperforming Health Care and Consumer Discretionary sectors.
- Security selection produced a neutral result as gains in the Industrials and Information Technology sectors were offset by losses in the Materials and Financials sector.
- The Manager maintains the biggest sector overweight allocation to Consumer Staples as they believe that the durable business model, greater geographical diversification, lower earnings volatility and reasonable valuations will benefit relative performance in the uncertain market environment. The Manager continues to hold a significant underweight position in Financials primarily based on their long-time view that most developed markets' commercial banks and insurance companies cannot grow faster than global GDP through a full economic cycle.
- Geographically, the portfolio is overweight primarily in the Europe ex-U.K. region with a focus on multinational companies and underweight in Japan and the Asia Pacific region. The Manager also maintains moderate out-of-benchmark exposures to North America (6%) and the Emerging Markets (8%).
- Based on MSCI EAFE style indices, value stocks significantly outperformed in 2016. Given the Fund's core investment bias, its style had no impact on short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in only two of the past five years but produced a return that was in line with its benchmark on a five-year annualized basis. This long-term performance ranks it in the second quartile when compared to its peers.
- Sector allocation was positive more often than not and was the main driver of added value on a five-year annualized basis.
- Security selection produced negative results over the long term.
- Based on MSCI EAFE style indices, growth stocks outperformed on average over the last five years. Given the Fund's core investment bias, its style had no impact on long-term performance.

Significant corporate events

Corporate

- There were a series of significant corporate events in 2015:

Effective January 1, 2015, the following senior management changes took place:

Mike Roberge, president and chief investment officer was promoted to co-chief executive officer (co-CEO);

Rob Manning, would work alongside Mike as chairman and co-chief executive officer (co-CEO);

Kevin Beatty, director of Equity, North America, was promoted to chief investment officer, Global Equity, a newly created role geared to assist in Mike Roberge's transition to Co-CEO;

Bill Adams, MFS director of Fixed Income, was promoted to chief investment officer, Global Fixed Income, a newly created role geared to assist in Mike Roberge's transition to Co-CEO.

On April 9, 2015, MFS announced that Tim Fagan, MFS' CCO, would resign at the end of May 2015.

On June 1, 2015, Brent Farmer, Vice President, Director of Corporate Risk and Compliance was appointed the interim CCO for MFS. Brent held this role until July 13, 2015, when Marty Wolin was appointed Senior Vice President and Chief Compliance Officer.

On July 15, 2015, the MFS Funds Board appointed Marty as the MFS Funds Chief Compliance Officer.

Fund specific

- In May 2016, MFS announced a change to the Portfolio Management team of the MFS International Equity Fund. Filipe Benzinho joined Portfolio Managers Marcus Smith and Daniel Ling as a co-manager effective May 1, 2016. It was also announced that Marcus Smith would transition off of the strategy effective April 1, 2017.

IMS commentary

- In seeking to achieve its investment goal, the portfolio will primarily be invested in high-quality companies with above average, sustainable earnings growth, trading below their expected earnings growth or cash flow growth rates. The fund may include a select number of US or Canadian companies that have material economic exposure to markets outside of the United States and Canada respectively. The Fund shall be fully invested in normal market conditions (except for transactional cash) with a maximum cash allocation of 10%.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- In May 2016, MFS announced a change to the portfolio management team of the Fund with Filipe Benzinho joining the team as co-Portfolio Manager and long-time Portfolio Manager Marcus Smith transitioning off of the strategy in April 2017. IMS has discussed the change with the team and has no immediate concerns given the one-year transition period, the long tenure of Mr. Ling on the Fund and Mr. Benzinho's longtime and ongoing contribution to the portfolio as a research analyst on the MFS Global Research Platform.
- In December 2016, we discussed the transition of the portfolio manager role within the team. Given the long transition period and the gradual approach the team has been applying in terms of transitioning responsibilities, we have no major concerns.
- The Fund has produced a long-term return in line with its benchmark and ranks in the higher quartiles. However, outperformance has not consistently been added through positive security selection, the Manager's stated primary source of added value, which will be monitored going forward.

IMS commentary – cont.

- Conclusion:**
- Due to the fact that 1) the Fund has outperformed its benchmark and ranks in the higher quartiles over the long term, all the while remaining within its stated investment philosophy and style, 2) while outperformance has not been due to consistent positive stock selection, no significant concerns exist in regards to fund management's capabilities in these areas and 3) we have no major concerns with the announced change to the portfolio management team, IMS continues to rate this Fund In Good Standing.

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

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