



Global Small-Cap Equity Fund (Lazard)
Manulife Lazard Global Small-Cap Equity Fund
Lazard Asset Management (Canada) Inc

December 31, 2016

Lead manager(s):	Ed Rosenfeld	Investment style:	Small cap
Investment objective:	The Fund seeks to generate long-term capital growth by investing in companies with strong financial productivity at attractive valuations with a market capitalization between \$300 million and \$5 billion.		
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
Global Small-Cap Equity Fund (Lazard)	17.14	47.76	17.68	22.32	-0.39	18.98
MSCI World Small Cap Index - Lazard Global Small Cap ⁽¹⁾	14.92	41.25	11.08	19.56	8.81	18.59
Value added (+) / lost (-)	2.22	6.51	6.60	2.76	-9.21	0.39
Quartile ranking ⁽²⁾	3rd	1st	1st	3rd	4th	2nd

Short-term performance analysis

- In 2016, the Fund significantly underperformed its benchmark and ranks in the fourth quartile within the Global Small Cap Equity peer group.
- Security selection was the main detractor from relative performance particularly within the Financials, Information Technology and Consumer Discretionary sectors. More specifically, the portfolio's exposure to Diversified Financials, Software & Services and Consumer Service & Retailing detracted most from relative value. Stock selection in Consumer Staples and Real Estate was also weak.
- Sector allocation produced neutral results as the positive effect from an underweight in Health Care was offset by the negative effect from an overweight in Diversified Financials.
- The portfolio remains overweight to the Industrials and Financials sectors and underweight to the Health Care, Real Estate and Utilities sectors. Regionally, the portfolio maintains a large underweight allocation to the U.S. as the Manager believes that the U.S. small cap market is very expensive; overweight allocations are primarily to Canada, Germany and the U.K.
- Based on the MSCI World indices, global small cap equities outperformed larger cap equities. Given the Fund's small capitalization investment bias, its style had a positive impact on short-term performance.

Long-term performance analysis

- The Fund outperformed its benchmark in four of the past five years and added value on a five-year annualized basis. This long-term performance ranks it in the second quartile when compared to its peers.
- Security selection was positive more often than not and was the main driver of added value on a five-year annualized basis.
- Sector allocation produced mixed results over the long term.
- Based on the MSCI World indices, global small cap equities outperformed larger cap equities on a five-year annualized basis. Given the Fund's small capitalization investment bias, its style had a positive impact on long-term performance.

Significant corporate events

Corporate

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

Fund specific

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

IMS commentary

- The Fund's investment philosophy is based on the Manager's core belief in "relative value" investing, focusing on the trade-off between valuations and financial productivity. The Manager believes that the combination of sustainably high or improving returns on capital and attractive valuations produces consistently strong performance over time in a range of market environments. The portfolio is designed to defend well in weak market environments and participate in rising markets while displaying a lower level of absolute volatility.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- The Fund has slightly added value on a five-year annualized basis. In 2016, the Fund significantly underperformed its benchmark and detracted considerable value from the portfolio's consistent long term performance track record. Given the volatile market conditions in 2016 where wide divergence existed among sectors and regions, this near-term underperformance is not entirely unanticipated but we will closely monitor the Fund's performance going forward. Long-term performance remains strong and in-line with our expectations.

Conclusion:

- Due to the fact that 1) the Fund has slightly outperformed its benchmark over the long term despite the significant near-term underperformance in 2016, 2) the Manager has remained within its stated investment philosophy and style and 2) outperformance has been primarily a factor of positive stock selection, IMS continues to rate this Fund In Good Standing.

⁽¹⁾ The source of benchmark returns are utilizing the Bank of Canada end of day for currency exchange. This change may result in minor differences from otherwise listed benchmark returns

⁽²⁾ Quartile rankings are based on the underlying fund's returns.

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