



Absolute Return Global Bond Strategies Fund (SLI)

Manulife Standard Life Investments Absolute Return Global Bond Strategies Fund

December 31, 2016

Standard Life Investments Ltd.

Lead manager(s):	Roger Sadewsky	Investment style:	Absolute return global bond strategies
Investment objective:	The Fund aims to provide positive investment returns in all market conditions over the medium to long term.		
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
Absolute Return Global Bond Strategies Fund (SLI)	N/A	N/A	N/A	2.91	*6.13	N/A
3 month CDOR (Benchmark)	N/A	N/A	N/A	0.91	0.90	N/A
3 month CDOR + 3% (Objective)	N/A	N/A	N/A	3.91	3.90	N/A
Value added (+) / lost (-)	N/A	N/A	N/A	2.00	5.23	N/A

* Performance Note: The Fund's 2016 return as provided by GRS is meaningfully higher than that of the underlying fund, which returned approximately 2.4% for the year. GRS has attributed the notable variance to a large cash flow into the Fund in February 2016 and a subsequent one-day trading lag. This resulted in a monthly return of 4.16% for the Fund in February, as compared to 0.13% for the composite (underlying fund).

Short-term performance analysis

- The Fund posted a positive absolute return in 2016 and outperformed its benchmark over the period.
- Several strategies were notable contributors to the Fund's results during the year. Exposure to US investment-grade credit, short-dated credit, and high-yield credit helped over the period. US butterfly positioning, currency pairings favouring the Japanese yen over the Swiss franc, and allocations to Korean government bonds also benefitted the portfolio.
- The Fund was fairly active in closing underlying strategies as expectations were fulfilled or market conditions changed. Newly opened positions toward the tail-end of the year included a short US interest rates strategy, on the expectation of increases in monetary tightening, and a UK Retail Price Index inflation steepener, on the belief that the difference between long- and short-term inflation expectations will widen in the medium term.

Long-term performance analysis

- The Fund does not have a long-term track record of performance to assess, however performance since inception has been strong and there are no concerns.

Significant corporate events

Corporate

- In September 2014, Standard Life PLC announced the sale of its Canadian operations to Manulife Financial Corp. This transaction was closed on January 30, 2015. This Fund continues to be managed based out of Standard Life's UK operations, and as such this sale had no impact on the ARGBS Fund.

Fund specific

- In May 2015, Standard Life Investments announced that Sebastian Mackay, an investment director within the firm's Multi-Asset Investing team, would resign and be leaving the company. Mackay served as a manager of the Absolute Return Global Bond Strategies ('ARGBS') fund since 2013 and a manager of the Global Absolute Return Strategies (GARS) fund since 2014. Adam Skerry replaced Mackay on the ARGBS fund, but a decision was made that a replacement would not be named on the GARS fund.

IMS commentary

- The strategy of the Fund is to achieve its objective through dynamic allocation to a broad range of investment opportunities in the fixed income and foreign exchange markets. These opportunities are explored through investing in traditional assets (such as government bonds, credit, emerging market debt, inflation-linked bonds, currencies and other types of fixed income instruments) and by using investment strategies based on advanced derivative strategies. The Fund can take long and short positions in markets and groups of securities through derivatives contracts. Cash will be held for cash administration and strategic reasons.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- SLI's Multi-Asset team has seen several senior individuals depart in recent years for competitor firms seeking to establish similar multi-asset investment teams and offerings. Most recently this has included Sebastian Mackay who has joined David Millar and other former SLI Multi-Asset team members at Invesco. In July 2013, Euan Munro departed SLI to take on a leadership role with Aviva's multi-asset team.
- While the departure of team members that have contributed to the Fund's previous success is somewhat unsettling, the continuing depth of resources and experience on SLI's Multi-Asset team gives us confidence that these personnel changes should not have a negative impact on the day to day portfolio management activities of the Fund. The team has grown meaningfully in recent years alongside the growth in assets, with team size increasing from 26 members in 2012 to 62 in 2016.
- Moreover, Guy Stern has been an integral part of the senior portfolio management team for many years, and we are of the opinion that he is a logical successor to Euan Munro. We are therefore confident that his appointment has ensured minimal disruption to the daily portfolio management activities.
- The ARGBS Fund has met its stated risk/return objective over its relatively short history.

Conclusion:

- Due to the fact that 1) the Fund has remained within its stated investment philosophy and style, 2) the Fund's medium-term track record has met its risk/return objectives, and 3) we remain confident that the investment team turnover should not have a negative impact on the day-to-day management of the Fund, IMS continues to rate this Fund In Good Standing.

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