



**Manulife MMF Growth Opportunities Fund
(formerly the Canadian Small Cap Equity Fund (SLI))
Manulife Asset Management Ltd.**

December 31, 2016

Lead manager(s):	Ted Whitehead, Luciano Orengo	Investment style:	Small-Cap Growth
Investment objective:	The MMF Growth Opportunities Fund seeks to provide long-term capital growth by investing primarily in high quality securities and convertible instruments of small and mid-cap Canadian companies.		
Last meeting date:	Q1 2017	Next estimated meeting date:	Q1 2018
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Manulife MMF Growth Opportunities Fund*	0.88	29.13	8.11	1.43	10.52	9.56
BMO Nesbitt Burns Cdn Small Cap Index	2.46	7.76	-0.09	-13.75	35.39	5.19
Value added (+) / lost (-)	-1.58	21.37	8.20	15.19	-24.86	4.38
Quartile ranking ⁽¹⁾	4th	3rd	1st	1st	4th	3rd

*Portfolio management responsibility of the Canadian Small Cap Equity Fund (SLI) was transferred to Ted Whitehead of the MAM Small Cap Equity Team in May of 2015. The fund is now managed with the same investment philosophy and process as the MAM Growth Opportunity Fund. As such, the above contains the performance track record for the Growth Opportunities Fund which differs from the long-term track record of the Canadian Small Cap Equity Fund (SLI), but is more instructive of the current management team's performance track record.

Short-term performance analysis

- The Fund has significantly underperformed its benchmark in 2016 and ranks in the fourth quartile within the Canadian Small Cap Equity peer group.
- Security selection accounted for the majority of the Fund's relative performance over the year, while sector allocation decisions also detracted value. In addition, the Fund's performance was also hindered by elevated cash levels stemming from a defensive positioning decision for a period in the first half of the year.
- Security selection in (and to a lesser extent the underweight allocation to) Materials had the most significant negative impact on results. Off-benchmark allocations to Stella-Jones and Tahoe Resources, which were well into negative territory for the year, were absolute detractors, while below-sector-average gains from CCL Industries and Chemtrade Logistics Income Fund hurt relative results. Additionally, the Fund's minimal exposure to the junior gold and silver miners that saw their share prices soar over the year weighed on relative performance.
- The Fund maintained a large overweight to Information Technology, which was the only small cap sector to end the period with a negative result. This was a notable detractor from relative performance. Other detractors included security selection within Energy and Industrials.
- Given the team's process and emphasis on high-quality attributes when selecting securities, we would expect to see many of the more speculative, higher-beta names that led the rally in small caps in 2016 to be left out of this portfolio. The Fund's significant exposure to mid cap names also skews the performance comparison to a pure small cap index; hence, in a year like 2016 where small caps greatly outpaced mid caps, the performance differential is magnified.

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. This long-term performance ranks in the third quartile within the Canadian Small Cap Equity peer group.
- The team's blended approach to security selection, which uses a combination of quantitative and fundamental analysis to select stocks, has been credited with driving decision-making that has generated strong results over the long term.

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.

Fund specific

- In May 2015, MAM announced that the Canadian Small Cap strategy formerly managed by Mark Pugsley of SLI Canada had been moved under the leadership of Ted Whitehead of MAM.

IMS commentary

- The MMF Growth Opportunities Fund seeks to achieve long-term capital appreciation by investing primarily in high quality securities and convertible instruments of small and mid-size Canadian companies.
- The team employs an investment process that includes a combination of quantitative screening and bottom-up fundamental research. They utilize a proprietary, multi-factor quantitative model to rank all the securities in the universe. Further fundamental analysis is then performed on highly-ranked stocks. All stocks added to the portfolio satisfy the criteria for management strength, growth potential, market recognition and valuation.
- The investment team experienced turnover of two members in 2013 which had prompted IMS to place the Fund on Increased Scrutiny in Q3 2013. Since then, the team has been bolstered with two new hires and concerns over team stability have abated. IMS re-instated the Fund's status to In Good Standing in Q2 2015.
- Based on our due diligence, we are confident that the manager has remained within their stated investment philosophy and style.
- IMS has deep familiarity, and has met with the MAM team, led by Ted Whitehead, several times since his appointment to this mandate. The Manulife team offers a deeper team with a consistently applied process that has shown the ability to outperform historically. IMS has no concerns with the appointment of this Manulife team to the SLI Canadian Small Cap Equity Fund.
- The Fund's recent underperformance is in-line with expectations given the management's investment philosophy and process. Over longer timeframes, the Fund has demonstrated an ability to add value in the small and mid cap space.

Conclusion:

- Due to the fact that: 1) The Fund has demonstrated an ability to generate strong results in the small and mid cap space over longer periods, all the while remaining within its stated investment philosophy and style, and 2) concerns over turnover among investment professionals supporting the mandate's experienced manager have abated, IMS continues to rate this Fund In Good Standing.

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

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