

**Emerging Markets Fund (Schroders)
Manulife Schroders Emerging Markets Equity Fund
Schroder Investments Limited**

December 31, 2016

Lead manager(s):	Emerging Market Equity Team	Investment style:	Emerging Markets
Investment objective:	To provide long-term capital growth by investing in companies based in developing countries. The strategy aims to outperform the MSCI Emerging Markets Index by 3.5% per annum (gross of fees) over rolling three year periods.		
Last meeting date:	November 2016	Next estimated meeting date:	Q4 2017
Current Rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Emerging Markets Fund (Schroders)	19.34	6.11	5.38	5.55	7.45	8.64
MSCI Emerging Markets Net Index (CAD\$)	15.61	3.93	6.63	2.05	7.34	7.01
Value added (+) / lost (-)	3.73	2.18	-1.24	3.51	0.11	1.63
Quartile ranking ⁽¹⁾	1st	2nd	3rd	2nd	2nd	3rd

Short-term performance analysis

- In 2016, the Fund slightly outperformed its benchmark and ranks in the second quartile within the Emerging Market Equity peer group.
- Country allocation was the main contributor to added value, primarily from an overweight allocation to the strong performing Russian market and an underweight allocation to the underperforming Mexican and Malaysian markets..
- Security selection produced negative results overall as positive selection in China was more than offset by negative selection in South Africa and Brazil.
- The Manager maintains the largest absolute country allocation to China with a neutral position relative to the index. The largest overweight country allocations remain in Russia, Korea and Brazil; the largest country underweights are currently in South Africa, Mexico and India. Sector allocation is the side effect of the top-down country allocation and bottom-up security selection.
- Based on the MSCI Emerging Markets 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 four of the past five years and added value on a five-year annualized basis. This long term performance ranks it slightly below median 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.
- Country allocation also produced positive results over the long term.
- Based on the MSCI Emerging Market 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

- In March 2016, Schroders announced a series of senior management changes. Michael Dobson, Chief Executive since 2001, stepped down and was succeeded by Peter Harrison in April 2016. Dobson, in turn, succeeded Andrew Beeson as Chairman in April 2016. Massion Tosato, Executive Vice Chairman and Global Head of Distribution, also announced his departure as at the end of 2016.

Fund specific

- In February 2016, Schroders announced changes to the Global Emerging Market (GEM) Equities Team. Allan Conway, Fund Manager and Head of Emerging Market Equities, decided to retire in August 2016. As a result of this retirement, Global Emerging Market Fund Manager Tom Wilson was appointed the new head of the GEM equities team.

IMS commentary

- The Emerging Markets Fund (Schroders) is an actively managed fund with a belief that value can be extracted through both country allocation and stock selection. The fund does not apply any form of style bias but tends to favour mid-cap companies. Country allocation is driven by a quantitative model, to which the team applies a judgmental overlay in a controlled manner, while fundamental research forms the basis of the stock selection process. The fund is expected to add value in most market environments and throughout the cycle. There are few biases in the process which is designed and managed to be a core balanced process.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style.
- Since Allan Conway's retirement was announced in February 2016 and Tom Wilson was appointed as the Head of the Global Emerging Market Equities team, we have met with Mr. Wilson and also discussed the change with other senior members of the team. In August 2016, the team completed a smooth transition to the new leadership, including Mr. Wilson as Head of the team and three long-time Global Fund Managers who have remained focused on the day-to-day portfolio management activities. The deep-resourced team has been very stable and they continue to apply the long established investment process in managing the Fund.
- The Fund has added relative value over the longer term. Outperformance has been mostly due to positive security selection, one of the Manager's stated primary source of added value.

Conclusion:

- Due to the fact that 1) the Fund has outperformed its benchmark over the long term, all the while remaining within its stated investment philosophy and style, 2) outperformance has primarily been a factor of positive stock selection and 3) the team has smoothly transitioned to the new leadership without any negative impact on the day-to-day management of the Fund, IMS continues to rate this Fund In Good Standing.

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

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