



Manulife Franklin Bissett Small Cap Fund
Franklin Templeton Investments

December 31, 2016

Lead manager(s):	Ralph Lindenblatt and Richard Fortin	Investment style:	GARP
Investment objective:	The fund seeks long-term capital appreciation by investing primarily in a diversified portfolio of small-capitalization Canadian equities that have proven management and long-term growth plans. The fund may also invest in foreign securities.		
Last meeting date:	June 2016	Next estimated meeting date:	Q2 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Manulife Franklin Bissett Small Cap Fund	N/A	N/A	-2.21	-17.57	32.31	N/A
Custom Bissett Small Cap Index	N/A	N/A	-2.34	-13.32	38.47	N/A
Value added (+) / lost (-)	N/A	N/A	0.12	-4.25	-6.15	N/A
Quartile ranking ⁽¹⁾	N/A	N/A	4th	4th	1st	N/A

Short-term performance analysis

- Over the 2016 period, the Fund has significantly underperformed its benchmark; however, ranks in the first quartile relative to its peers.
- The Fund significantly outperformed the benchmark in the fourth quarter, mainly due to strong security selection and a favorable allocation towards the Energy and Materials sectors. Due to the success in the Energy sector and significant share appreciation across several holdings, Fund management began reducing its overall exposure to the sector, although Fund management’s outlook remains constructive for the sector. Fund holdings as at the end of the year emphasized exposure to the Energy, Consumer Discretionary, Industrials and Financials sectors, which account for 76% of Fund assets as at year end.
- The Fund’s underperformance for the year was largely driven by the Fund’s underweight allocation and security selection within the Materials sector. Poor stock selection within the Financials and Industrials sectors further detracted value.
- The Fund’s sector allocation included an overweight exposure to the Energy and Consumer Discretionary sectors, while being underweight to the Materials sector, with no exposure to gold and precious metal equities. This allocation hurt performance as the Materials sector led most of the positive returns within the small cap market’s total return over the period.
- Based on S&P/TSX style indices, value stocks outperformed. Given the fund’s GARP investment bias, its style acted as a headwind to performance. This was especially pronounced through the Fund’s positioning within Materials. Based on the Fund’s style it would not have been expected to hold a significant weight in the highly volatile junior precious metals companies and as such underperformance relative to the benchmark was to be expected.

Long-term performance analysis

- Longer-dated performance is not available as the mandate has been on the platform for less than five years.
- The Fund has underperformed in both annual periods measured, with varying results relative to peers. The magnitude of underperformance on a one-year basis is disappointing, however there are no major concerns at this time, results are largely in-line with expectations given the Fund’s style and approach.

Significant corporate events

Corporate

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

Fund specific

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

IMS commentary

- The Franklin Bissett Small Cap mandate operates with the same consistent, high-quality biased, growth at a reasonable price (GARP) approach as the other Canadian equity mandates managed by the firm while further taking advantage of Bissett's organizational specialty in adding value through smaller cap security selection. The Fund continues to be co-managed by Ralph Lindenblatt and Richard Fortin. They have worked together since 2010, co-managing this strategy and Ralph has managed this mandate since 2006. There have been no changes to the team over the last year.
- The Fund mainly focuses on high-quality businesses with strong long-term profitability and growth profiles. The Fund targets a low level of turnover in all strategies and Fund holdings typically range between 30 and 50.
- There have been no material changes to the investment philosophy or process.
- Underperformance across the first half of 2016 relative to the benchmark was largely driven by the Fund's underweight allocation to precious metals companies as the price of commodities significantly advanced. Given the Fund's quality bias, underperformance was to be expected as Fund management will eschew the highly volatile companies that advanced to the greatest degree as a result of the commodity boom. This positioning has been long maintained and added significant value in Q4 when the resource sectors reversed. Over the long-term it is still expected that the Fund will add value utilizing this process and there are no significant concerns at present.
- Based on our due diligence, we are confident that the Manager has remained within the stated investment philosophy and style. Bissett remains well supported by Franklin Templeton, with continued growth within the analyst ranks and the fund has largely performed as would be expected.

Conclusion:

- There has been growth from within the firm. The culture is strong and the process has been consistently applied. The process is a research driven one, and the team remains strong and stable, with a few new analysts added in recent years. Poor 2015 performance was due to the Fund's long held underweight exposure in the Energy sector, which bounced back strongly in 2016 leading to first quartile results relative to peers; weak 2016 performance relative to the benchmark was due to the Fund's long held underweight exposure to the Materials sector, which began to bounce back strongly in the fourth quarter. IMS believes that the Fund continues to be managed within the stated investment philosophy and style.
- IMS continues to have confidence in the management team of this fund and continue to rate this Fund In Good Standing.

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

This report card is provided by Manulife as a tool to assist you in the governance of your retirement plan.

Manulife makes no representation or warranty, express or implied, as to the accuracy or completeness of the information provided. Though Manulife has taken all reasonable measures to provide you with relevant information and professional opinions, based on reliable sources*, it reserves the right to correct any error or omission.

The opinion of Manulife expressed in this report card shall not be the only factor to consider for decisions related to your plan's portfolio. Manulife is not responsible for the outcome of decisions made based on the information and opinion provided in the report card.

* Sources may include, but are not limited to, Mercer MPA, Morningstar, Principia and Thomson Baseline

All rights reserved © 2016 The Manufacturers Life Insurance Company

The Manufacturers Life Insurance Company