



Canadian Asset Allocation Fund (Fidelity)
Manulife Canadian Asset Allocation Fund (Fidelity)
Fidelity Investments Canada ULC

December 31, 2016

Lead manager(s):	Geoff Stein, David Wolf	Investment style:	Active
Investment objective:	Aims to achieve a high total investment return by investing in equity, fixed income securities and money market instruments.		
Last meeting date:	August 2016	Next estimated meeting date:	Q3 2017
Current rating:	IN GOOD STANDING		

Annual fund performance (%)

	2012	2013	2014	2015	2016	5 yrs
Canadian Asset Allocation Fund (Fidelity)	4.98	12.58	12.3	1.49	9.47	8.08
Blend: Fidelity Canadian AA	5.91	8.01	9.80	-4.36	13.92	6.47
Value added (+) / lost (-)	-0.93	4.57	2.50	5.85	-4.46	1.70
Quartile ranking ⁽¹⁾	4th	4th	2nd	4th	2nd	4th
Benchmark: 65% S&P/TSX Composite Index + 30% FTSE TMX Universe Bond Index + 5% FTSE TMX 91-day T-Bill Index						

Short-term performance analysis

- Over 2016, the Fund underperformed its benchmark. However, the Fund ranks in the second quartile relative to its peers.
- The Fund also underperformed its benchmark in the fourth quarter of 2016. Security selection within the Canadian equity component of the Fund detracted through security selection from the Energy, Materials and Consumer Staples sectors. Exposures to gold-related companies as well as to the Emerging Markets also detracted. The Fund's underweight allocation to Canadian bonds added value.
- For the year asset class performance and security selection was the largest contributor to underperformance, primarily within the Canadian equity component of the portfolio. Within the Canadian equity component, the primary detraction came from positioning within the Consumer Staples and Health Care sectors as the Fund's exposure to Valeant, during a strongly negative time period for the security.
- For the year asset allocation produced neutral results. In particular, the off-benchmark allocation to the Emerging Market equities hurt performance, while gold related equities added value for the portfolio on the whole. Allocations to U.S. high-yield bonds and U.S. Treasuries also contributed as investors bid up equity and higher yielding fixed income markets during the period.
- Fund management has maintained its underweight exposure to Canadian equities in favor of global resource, gold-related and EM equities. The Fund reduced its exposure to Canadian bonds in favor of US TIPS and investment grade bonds. Within Canadian equities, Consumer Staples and IT remain the largest sector overweight allocations, while Financials and Industrials remain the largest underweight allocations.

Long-term performance analysis

- The Fund has outperformed its benchmark three of the past five years and added value on a five-year annualized basis. This long-term performance ranks it in the fourth quartile when compared to peers. The peer group is comprised of mandates that hold a higher weight to foreign securities which is outside the scope of this mandate. This is reflected in the Fund's second quartile performance in 2016, despite underperforming its benchmark as Canadian equities outperformed foreign markets for the year. There are no concerns with the 4th quartile performance, and the Fund's strong performance relative to its benchmark is more indicative of its success.
- Both asset allocation and asset class performance produced positive results over the long term.
- Given its blended investment philosophy, style bias had no impact on long-term performance.

Significant corporate events

Corporate

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

Fund specific

- In April 2015, Brian Miron, the co-Portfolio Manager on the Fidelity Canadian Fixed Income team (which is a sub-portfolio within this mandate) made a personal decision to retire. His portfolio management responsibilities were transitioned effective April 1, 2015. Sri Tella assumed co-portfolio management responsibilities alongside current co-Portfolio Manager, Catriona Martin.
- In March 2014, Fidelity Investments (Fidelity) announced that David Wolf would be joining the Fidelity Canadian Asset Allocation portfolio management team. Mr. Wolf was named co-Portfolio Manager alongside Geoff Stein in managing the Fidelity Canadian Asset Allocation Fund. Mr. Wolf had been working with the Global Asset Allocation team since joining Fidelity in September 2013. Derek Young, who was co-Portfolio Manager, relinquished his responsibilities on the Fund, but continued as President of Fidelity's Global Asset Allocation division.

IMS commentary

- For the Canadian Asset Allocation Fund (Fidelity), the total portfolio targets a neutral exposure to the four super sectors (Resources, Interest Rate Sensitive, Industrials, Consumer) of the S&P/TSX Composite Index. The super sector neutral investment approach serves as a guide for portfolio construction and contributes structurally to overall portfolio risk management. Security selection and portfolio construction follows a bottom-up fundamental research approach, leveraging Fidelity's global investment network, with a primary focus on the investment research output of Fidelity's Team Canada.
- Based on our due diligence, we are confident that the manager has remained within the stated investment philosophy and style.
- We are confident that the addition of David Wolf to the Canadian Asset Allocation management team has not had a negative impact on the management of the Fund. We have met with the team several times since his appointment and Fund management believes that David has added value to both team discussions and research since he joined the team.
- Fidelity's Fixed Income team has over 200 investment professionals that operate within a team based structure and each fixed income mandate is managed by a team composed of portfolio management, credit research, quantitative research, and trading professionals. IMS has no immediate concerns with Brian Miron's retirement as Catriona Martin has continued to manage the Fund as a co-Portfolio Manager. The personnel change has not resulted in any modifications to the investment process of the Fund.
- The Fund has added relative value over the long term. Outperformance has been in part due to asset class performance which is in line with expectations. The product's design is to focus on Canadian assets and only opportunistically invest in foreign equities.

Conclusion:

- Due to the fact that 1) we are confident the fund specific changes will not have a negative impact on the day-to-day management of the Fund and 2) the Fund has added relative value over the long term, all the while remaining within the stated investment philosophy and style, IMS continues to rate this Fund In Good Standing.

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

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